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The G-20 and International Financial Institution Governance

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Abstract

This paper addresses the agenda for the Group of Twenty (G-20) leaders' meeting in Seoul, Korea in November 2010. This is an opportunity and challenge for Asian leaders in particular. Their test will be, first, to demonstrate that they can responsibly advance economic recovery. They must also deliver on institutional reform, in particular of the International Monetary Fund (IMF). I advocate a substantial expansion of the IMF's role as lender of last resort that is integrated with the surveillance role of the IMF in the form of comprehensive prequalification for IMF assistance and policy advice and a substantial increase in the IMF's financial resources. I also propose an approach to meaningful reform of the distribution of IMF quotas along with limiting European seats on the IMF executive board.

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INTRODUCTION AND SUMMARY

The global economic and financial crisis of 2007–10 adversely, though differentially, impacted essentially every country in the world. The global effects were the consequence of the high degree of economic and financial integration that is a central characteristic of the 21st century economic and financial system. Spurred by technology, global integration will continue to increase. The logical conclusion is that the pattern of the recent crisis will be repeated though one hopes with less virulence.

Governments responded to the global crisis with an unprecedented demonstration of international policy coordination. Their principal mechanisms were the Group of Twenty (G-20) and the international financial institutions, in particular the International Monetary Fund (IMF). In the wake of the crisis, the central question for the international community is the future of these institutions. Will they be strengthened or set to one side pending the next crisis?

Because the G-20 and the IMF performed admirably in the crisis, support for them and their member governments should be high, but that is not the universal reality. In the aftermath of the crisis, public opinion has actively second-guessed the policy actions of many governments and intergovernmental institutions of economic and financial cooperation. Trust in governments has fallen, in many cases to new lows, and support for the international institutions has eroded as well. The resulting centrifugal forces make it increasingly difficult to mobilize public support for institutions of international cooperation.

The G-20 is one such institution. It is an ad hoc group. Even though it represents more than 60 percent of the world's population and more than 80 percent of the world's GDP, the G-20 is considered by many political leaders and observers to lack legitimacy because its membership is self-selected. Almost 2.5 billion people are unrepresented. Moreover, the G-20 is only one of many such ad hoc groups that operate at the global, regional, and subregional level.

Alongside these ad hoc groups are international financial institutions (IFIs) that also operate at the global, regional, and subregional level. They are more formally constituted. Partly as a consequence, in a changing global environment in which Asian countries have increasing relative economic and financial weight, their governance is on the agenda of many of the ad hoc groups as well as on the agendas of the institutions themselves.

The rapid expansion of many Asian economies over the past decade has been facilitated by their relative openness.[1] Two of its largest economies, China and the Republic of Korea, are particularly open for countries large in area and population with ratios of aggregate current account transactions to GDP

1. For purposes of this paper, I identify Asia as the 48 regional members of the Asia Development Bank (ADB). Four regional members of the ADB are not members of the IMF: the Cook Islands; Hong Kong, China; Nauru; and Taipei, China. Russia is not a member of the ADB. Seven republics of the former Soviet Union are members of the ADB.

of more than 70 percent. Consequently, Asia needs a healthy world economy and a system of economic governance that supports an open economy if Asia is to continue to prosper. Even those who advocate Asian triumphalism should worry about an Asia that turns inward and ignores the global dimension in its policies. Asian leaders should feel more threatened by the predominance of centrifugal forces, which threaten collective institutions, over centripetal forces, which strengthen those institutions.

On November 11–12, 2010, the G-20 leaders will meet for the first time in Asia. They have an opportunity to demonstrate their concrete support for the informal and formal international institutions of the global system. Asian leaders, in cooperation with leaders of other regions, have an overwhelming interest in doing so. Moreover, Asia (as defined in footnote 1) has six, or 30 percent, of the members of the G-20 and is well positioned to influence G-20 outcomes. To that end, this paper offers recommendations for Asian leaders and the G-20 in six key areas.

First, the G-20 should emphasize substance over form. With respect to substance, the G-20's overarching objective should be to strengthen existing institutions, not to supplant them. To date, the G-20 has a good record building on the expertise of the international organizations such as the IMF, World Bank, Organization for Economic Cooperation and Development (OECD), and Financial Stability Board (FSB) while stimulating and advancing a work program of global action and reform.

The risk is that countries—acting both individually and collectively in their regional and subregional groups—will fail to learn the central lesson of the crisis: all countries were adversely affected and a coordinated global response was required and forthcoming to maximize the positive effects and minimize free riding and negative spillovers. Therefore, global institutions, in particular, need to be strengthened and supported. It also follows from the scope of the recent crisis that global institutions like the International Monetary Fund (IMF) and those in the World Bank Group should have priority over regional and subregional institutions precisely because they are global in their orientation and activities.

For the immediate future, leaders of Asian countries have a special responsibility. Many in Asia and elsewhere agree with IMF Managing Director Dominique Strauss-Kahn (2010b): "Asia's time has come to play a leading role in the global economy," but many also agree with him that Asia's relationship with the rest of the world as well as with the IMF must be "two-way." With a greater voice comes greater responsibility. The Seoul G-20 summit provides the major Asian countries an opportunity to demonstrate their acceptance of this bargain not by promoting Asia but by enhancing international cooperation. This is particularly true with respect to the fifth recommendation below: concrete actions as part of the mutual assessment process supporting the G-20's framework for strong, sustainable, and balanced growth.

Second, turning briefly to form, the countries in G-20 meetings should not institutionalize their gatherings and should resist an excessive expansion of their substantive engagement. The test for the G-20 leaders is whether their decisions and initiatives are, and are perceived by others to be, in the mutual interests not only of the participating countries but also of the global economic and financial system as a whole. If the G-20 is to be successful as "the premier forum for our international economic cooperation," the emphasis should be on policy cooperation *among* the participants not on the policies of, or that principally affect, other countries. The emphasis should be on the "our" in the quoted statement from the Pittsburgh and Toronto G-20 meetings.

If the G-20 leaders cannot resist institutionalization and expanding their mandate, that decidedly second-best option should be accompanied by streamlining G-20 representation: the European Union countries should be limited to two seats (one for the euro area and one for the non–euro area), the remaining seats for leaders should be selected via constituencies, the total number of such seats should be fewer than 20, and representatives of international organizations should be observers with their participation focused on delivering reports and responding to requests rather than driving the agenda.

Third, with respect to IFI reform, and specifically IMF reform, which is on the Seoul agenda, the G-20 leaders must reach consensus on a number of key issues. Most important is the size of the overall increase in IMF quotas. The leaders in Seoul should endorse a doubling of quotas for the reasons advanced in the fourth recommendation below. Also important is reducing the representation of Europe on the IMF executive board from the current 8 to 10 chairs toward an ultimate target of two, or at most three, chairs.

Important but of less overall substantive consequence to IMF reform, in contrast with symbolism and G-20 credibility, is delivering on the Pittsburgh commitment "to a shift in quota share to dynamic emerging-market and developing countries of at least five percentage points from overrepresented to underrepresented countries." A crucial issue is the interpretation of this statement. It should be interpreted as requiring a shift of quota share away from the traditional advanced economies to the emerging-market and developing countries, in particular those that are most dynamic, and a simultaneous broader redistribution from overrepresented to underrepresented countries within both groups. A second crucial issue is the presumptive use and status of the IMF quota formula that was agreed upon in early 2008. As is explained below, the 2008 formula is deeply flawed. To achieve the Pittsburgh commitment, the 2008 formula would have to be overlaid with another set of ad hoc criteria undermining the transparency and credibility of the result. The best way to deal with this second issue would be to employ what in effect would be a revised new formula that could be blended with the 2008 formula to produce the agreed result. That approach should be accompanied by a commitment to phase out the flawed 2008 quota formula over time in favor of the revised new formula.

Of marginal importance would be a symbolic decision in Seoul to abandon the convention that the head of the IMF should be a European citizen and the head of the World Bank should be a US citizen. The convention should and must be abandoned at the earliest opportunity, but those who want to force this issue need to contemplate the size of the substantive gain from having Europe and the United States eat crow at the Seoul summit. Much more important to all the IFIs is a commitment to open, merit-based processes for the choice of all their senior officials down to the level of department heads in the IMF and the equivalent in the World Bank and the other IFIs. Nationality should take care of itself.

Fourth, as with the G-20 itself, the form of IFI governance is less important than the substance of the work of these institutions. The lesson of the global economic and financial crisis is that the IFIs, the IMF in particular, are essential to effective crisis management and to the limitation, or prevention, of crises. The world is not ready for a global central bank that can act as an international lender of last resort to the international financial system as whole, but the recent crisis has demonstrated that the IMF should be moved closer to this role.

Unfortunately, the leaders and citizens of some key countries do not agree with this proposition; they articulate concerns about wasting taxpayers' money and combine those arguments with simplistic moral hazard concerns associated with IFI lending. All IFI lending activities involve a balance between the provisions of financial assistance on concessional terms and the promotion of policy reforms through programs or surveillance. Actual and potential financial assistance may contribute to moral hazard. The issue is whether the associated reforms are worth the risks. It is important to get this balance right, which has not recently been the case. For example, in January 2008, the IMF governors acquiesced in the judgment that the IMF did not need a general increase in quota recourses. As the crisis was unfolding, the balance was tipped too far toward starving the IMF, and the other IFIs, of financial resources. As a consequence, the IFIs under G-20 leadership had to scramble during the crisis to assemble financial resources.

It is naïve to believe that there will not be other crises in the future. That is why it is essential that the Korean authorities succeed in their quest to strengthen the global financial safety net provided by the IMF and move the Fund closer to being an international lender of last resort. A crucial element of this package is to provide the IMF with sufficient financial resources to play this role, which is why doubling the size of the Fund—total IMF quotas—is so important as part of the Seoul package. But other mechanisms to mobilize IMF financing are also appropriate: special drawing rights (SDR) allocations and temporary swap arrangements with the central banks that issue international currencies.

An associated component to this reform of IMF lending should be to integrate better the IMF's surveillance role and its financing role. I propose a framework for such integration based on the IMF's Article IV consultation process: comprehensive prequalification. I propose that for every member of the Fund its Article IV review should include a staff judgment on the nature of the policy conditions, if any, necessary to qualify that member for IMF financial assistance if needed. The G-20 in Seoul should endorse this augmentation of the safety net proposal.

Augmentation of the financial resources of the IMF should be complemented by the closer integration of regional financial support with global standards. The bias should be in favor of one system for one world. One set of rules. One set of standards of economic and financial behavior. One set of procedures that govern crisis prevention and crisis management.[2] This principle has been strengthened in the context of the recent economic reform programs in Eastern and Central Europe, in Greece, and potentially with programs that draw upon the European Financial Stabilization Mechanism, which is to be supported by the European Financial Stability Facility. The global lesson of the European crisis of 2010 is that regional surveillance and conditionality tend to be weak, tipping the balance toward too much financing, inadequate adjustment, and increased moral hazard. The implication for Asia is that the Chiang Mai Initiative and the Chiang Mai Initiative Multilateralization should not be completely detached from IMF surveillance, financing, and conditionality.

The related substantive issue is some countries' preference for self-insurance in the form of increases in reserves generated by current account surpluses rather than capital inflows. This preference, in the aggregate, tends to distort the international adjustment process; see the fifth recommendation below. In this connection, consideration should be given to regular issuance of SDR as long as member countries credibly commit to limiting their accumulations of reserves in other forms and their current account surpluses.

Fifth, the mutual assessment process in support of the G-20's framework for strong, sustainable, and balanced growth is closely related to the crisis prevention role of the IMF. Its success will depend crucially on whether the systemically important countries will discharge their responsibilities. The recent global economic and financial crisis was not triggered by a crisis of confidence in the US dollar or in US economic policies following the build-up of global imbalances in the middle of the past decade, but those risks remain.

It is essential that, as part of the mutual assessment process, the individual G-20 countries meeting in Seoul put on paper precise, new, numerical commitments as part of their comprehensive action plan to achieve an economic recovery and subsequent expansion that broadly benefit all stakeholders in the global system. If the leaders meeting in Seoul can do no more than repeat broad statements about reducing budget deficits and public debt levels, implementing structural reforms, and allowing greater exchange rate flexibility, they will have ducked their responsibility. In this connection, the leaders of the Asian countries, which are individually and collectively in the strongest position, but also are highly vulnerable to another systemic disruption, must take the lead in putting on the table concrete changes in policies. For example, they should commit to numerical targets for their current account positions and announce specific measures to achieve those targets. The other G-20 countries should follow the Asians' lead.

2. This is the logic supporting the enlargement of the FSB and enhancing its role.

Finally, when it comes to financial regulation and reform, there is a natural tendency for countries whose financial institutions were not major players in the recent financial meltdown to step aside, criticize those institutions and jurisdictions that were principally involved, and decline to participate in a strengthened regulatory and supervisory regime. That would be a mistake. Yesterday's cautious institutions can quickly become tomorrow's high fliers. Meanwhile, institutions in the major jurisdictions will use the very real threat of regulatory and institutional arbitrage to water down agreed reforms. This is why it is essential that the leaders of the Asian countries commit to implement conscientiously the reforms of the financial system that are emerging from the work of the Financial Stability Board and the new capital standards of Basel III.

At the same time, as part of a larger quid pro quo, the G-20 countries should commit themselves to a full-fledged examination of the issues associated with global capital flows, including the use of capital controls, with a view toward amending the IMF Articles of Agreement to update the framework governing the surveillance and lending activities of the Fund and to reinforce and clarify the role of the Fund in this area.

THE CHALLENGE OF GLOBAL ECONOMIC GOVERNANCE

Global governance is a complex issue fraught with ambiguities and pitfalls. Global economic governance is no different.

The governance challenges for official institutions increase the further removed the institutions themselves are from those affected by their decisions. The further removed the governing body is, the easier it is to think of that body as a disembodied "they." Progressing from hamlets and communities to schools and towns, counties and states, and the nation state, the identification between the citizen and the perceived decision maker becomes more tenuous. Moving from governance of the nation state to governance at the subregional, the regional, and the global level, the connections are loosened further, I would posit, by the square of the distance from the individual. What stake does the average resident of Seoul perceive that he has in the success or failure of the Chiang Mai Initiative (CMI), the ADB, or the IMF?

Any international consensus among national representatives is at best loosely shared further along the domestic political chain. A shared vision is difficult to articulate and achieve, except under special conditions such as a global crisis. National representatives have every incentive to pursue narrow, short-term national interests. With two possible exceptions, rarely does a finance minister emerge from an international meeting saying "we have acted in good faith in the interests of the world as a whole." Exception number one is when the finance minister has just been verbally bludgeoned into agreement by the overwhelming majority of peers. Exception number two is when there was no disagreement going into the meeting. Leaders may internalize collective success more, but they are even less likely to admit defeat.

GLOBAL ECONOMIC GOVERNANCE AND THE CRISIS

Despite the efforts manifested by governmental authorities to deal with the recent global economic and financial crisis, incumbent politicians in most jurisdictions seriously affected by the crisis are running scared in their next elections. In 2009, the Liberal Democratic Party decisively lost power in Japan. In spring of 2010, the governing coalition in Germany desperately tried to postpone a decision to provide financial assistance to Greece to stop a run on that partner country until after an important state election in North Rhine-Westphalia. The German government ultimately acted before the May 9 election, and the coalition lost the state election. In the fall of 2010, the Democratic Party in the United States faces an electoral debacle in mid-term elections for the US Senate and House of Representatives two years after President Obama became the first president in 20 years to win a majority of the popular vote and subsequently acted decisively to contain the Great Recession.

Governments, and those who work in governments everywhere, face a deep distrust of what was done in the crisis and why it was done. The distrust derives from a combination of anger about the thrust of many of the actions that governments took in 2008–09 and of second guessing about the precise content of those actions. In general, the actions are widely perceived as having benefitted others, including importantly individuals and institutions located in other countries, and as having been paid for, in cash or in kind, by the aggrieved citizens at home.

As a consequence of the crisis, in essentially every country, governments have lost respect and trust. The natural tendency of elected officials and public servants working with them is to turn inward, to seek national rather than international solutions, and to hesitate to make new commitments that would benefit the world as a whole and their own countries as well. International institutions, formal and informal, were instrumental in limiting the depth of the crisis and ameliorating some of the most adverse externalities and consequences of the crisis for those countries that were unprepared or underprepared. Despite that fact, international institutions—subregional, regional, and global—are deeply at risk. This is because they, too, failed to see, or warn sufficiently of, the impending crisis.

During the crisis and its immediate aftermath, the leaders of each of the IFIs advanced bids for substantial additions to their basic capital resources. The IMF and the Asian Development Bank moved first, but the World Bank and each of the other regional development banks submitted requests as well. In each case, the initial response of member countries was positive, but progress on implementation has been slow.

In the case of the IMF, expansion and modification of the New Arrangements to Borrow (NAB) by about $500 billion was endorsed at the London summit on April 2, 2009. It took more than seven months to reach agreement among participants on November 26, 2009. Formal approval by the IMF executive board was delayed until April 12, 2010—a full year later—and the decision is not yet effective.

As of mid-September 2010, nine countries—all European—had not consented to the changes in their commitments, which are necessary before the overall package becomes operational. Meanwhile, 78 percent of total commitments from the 13 new participants in the NAB had been approved, greater than the necessary 70 percent required once the current NAB participants have acted.[3] As discussed below, it is an open question whether the regular quota resources of the IMF will be significantly increased in the context of a further adjustment of IMF voting shares, which is to be agreed by January 2011, and how quickly that agreement will be implemented.

Recent experience is not encouraging. Following almost three years of complex and acrimonious discussions, on April 28, 2008, the governors of the IMF approved two amendments to the IMF Articles of Agreement and ad hoc increases in the IMF quotas of 54 members. The first of the two amendments would alter to the voice and voting provisions in the IMF, including increasing basic votes. Implementation of the increases in quotas of the 54 members is conditional on acceptance of the amendment by three-fifths (112) of the members with 85 percent of the weighted votes. More than two years later, as of mid-September, 2010, only about three quarters (85 members) of the required number of members had accepted the amendment. (They have 78 percent of the voting power.) Interestingly, only 61 percent of the countries that would receive increased IMF quotas had taken the necessary action. Five of the countries that had not done so are from the Asian region.[4] It may be of some interest in the Asian context that 17 of the 19 nonregional members of ADB had accepted the amendment, but only 19 of the relevant 40 regional members that are members of the ADB had done so.[5]

In the case of the World Bank and the regional development banks, the governors of those institutions have approved increases in their capital. However, approval by governors is a necessary but not a sufficient condition for the approval of capital increases and associated changes in governance.

A recent report by the minority staff of the influential US Senate Foreign Relations Committee (2010) under the leadership of the respected moderate republican Senator Richard Lugar recently made 50 recommendations on US policy toward the IFIs, including:

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3. The expanded NAB includes 39 participants, including 11 from the Asian region. The Asian participants make up about 33 percent of total commitments, led by Japan with the largest commitment after the United States, and 59 percent of the contributions from the 13 new participants, led by the People's Republic of China now with the third largest commitment. The other new Asian participants are India, New Zealand, and the Philippines, joining Australia, the Hong Kong Monetary Authority, Japan, Korea, Malaysia, Singapore, and Thailand. See http://www.imf.org/external/np/fin/misc/nab.htm.

4. They are Kazakhstan, Palau, Thailand, Timor-Leste, and Turkmenistan. See http://www.imf.org/external/np/sec/misc/consents.htm.

5. In the first group, the two countries that have not acted are Ireland and Turkey. In the second group, the principal countries (based on share of regional voting power of more than 1 percent) are Azerbaijan, Bangladesh, Kazakhstan, New Zealand, Sri Lanka, and Uzbekistan.

- Consider delaying a G-20 commitment for capital increases for the multilateral development banks until it is clear that capital infusions are necessary, needed reforms are underway, and upcoming elections of leadership positions at some development banks are completed.
- To the extent possible [which I suspect is technically not possible], the administration should pursue temporary capital increases given that the impact of the global financial crisis will eventually wane.
- Consider [but not commit to] providing funds to clear United States' current arrears (unmet commitments) to the development banks, the existence of which undermines United States influence at these institutions.[6]

In the US government, powers are separated or shared between the legislative and executive branches in order to pose a check on the executive and vice versa. One consequence is that the legislative branch, in the name of responding to the will of the people, often declines to go along with, or to go along with in full, commitments made by the executive branch even when there has been extensive advance consultation. For example, on June 30, 2010, the relevant subcommittee of the Committee on Appropriations of the US House of Representatives declined to approve any of the first of five $106.6 million US installments for increasing the paid-in capital of the Asian Development Bank and cut back the administration's $115.25 million request for the Asian Development Fund by about 10 percent.

My inference from these facts is that support for IFIs and governance changes in IFIs is not very strong even on the part of those countries that are expected to benefit directly. Where the benefits are perceived as indirect such as the United States, the challenges are even greater.

I suspect that if international agreements that commit the taxpayers of countries to provide support to other countries via IFIs were submitted to referenda in the first group of countries, more often than not they would not pass. As evidence, note the delay in Switzerland's joining the IFIs. Note also the long-standing reluctance of the members of the European Union that see themselves as net creditors to support the establishment of a substantial pool of common fiscal resources, as well as the more recent backlash against using taxpayers resources to "bailout" the Greek government and its citizens from their fiscal and financial excesses and the delays in establishing the temporary European Financial Stability Facility that would provide the financing for the European Financial Stabilization Mechanism that, in principle, would also involve IMF financing.

The politics and political economy of a few countries, most of which are found in Northern Europe, historically have been more supportive of foreign assistance in general and the international financial

6. As a citizen of the United States, I have long been deeply troubled by US arrears to IFIs. This is not a new phenomenon; it dates back at least to the late 1960s.

institutions in particular.[7] In July 2010, a majority of people polled in four of the five largest European countries as well as in the United States favored cuts in aid to developing countries as part of their fiscal restraint programs. The list was led by the United States at 70 percent approval, but only Italy, at 40 percent, was an exception (Barber 2010). Political extremism is promoted by low economic growth rates, as documented by Brückner and Grüner (2010), and political extremism frequently takes the form of antagonism toward foreigners and foreign institutions, including international institutions.

The central point is that in the aftermath of the 2007–09 global financial crisis and the associated increased distrust of governments, it will be increasingly difficult to mobilize public support for international action (climate change), international institutions (the IFIs), and reforms of the architecture of global economic governance.

The international financial institutions are at great risk. They are distant from the taxpayers who are asked to support them. This makes them easy to demonize because to most citizens, whether the institutions are providing financial support or policy advice to their countries, they are abstractions. Public opinion in most Asian countries still holds "the IMF" to blame for the 1997–98 Asian financial crises even though the evidence points in the other direction. Most of the officials with whom I have talked in the intervening decade say in private that the IMF advised them to do the right things, but they are reluctant to say so in public. The vast majority of the actions that the IMF, and the multilateral development banks as well, "forced" upon the countries in the crises were not subsequently reversed when the governments had repaid the IMF. In Korea on July 12, 2010, managing director Strauss-Kahn (2010a) acknowledged "we have made mistakes. But we have also learned from our experience during the Asian crisis." The next day, he argued (Strauss-Kahn 2010b) that "the extensive reforms undertaken over the past decade have been critical to protect Asia from the full brunt of the crisis."

The greater the length of the political rope attached to an international institution, the easier it is to find fault with some aspect of its operations and, in effect, hang the institution in the town square of public opinion. The challenges facing the international financial institutions are highlighted by the increased scrutiny they receive from nongovernmental organizations (NGOs).

NGOs are political entities designed to influence policies. NGOs come in many shapes and sizes. Many are reputable and responsible, but some are not. Moreover, what amounts to responsible behavior is difficult to define. The standards used by citizens of the United States, Singapore, India, Malaysia, or China to judge the activities of such entities differ widely. There are no national or international standards for NGOs. In the internet age, self-restraint by NGOs is rarely rewarded. Many stateless NGOs are

7. In the case of at least one of them, the Netherlands, where antipathy toward foreigners has increased substantially, one can wonder how long this tradition will last. Moreover, the Netherlands also is among the European countries that in the past have resisted changes in voting shares in the IMF because that country would lose prestige.

largely self-appointed in their missions, may be financially supported in large part by individuals external to the country or region where they are active or seek to represent, and tend to focus on single issues. In the process, they fuel clashes of political cultures.

The world has changed since the end of World War II, it has changed since the demise of the Bretton Woods exchange rate regime, it has changed since the collapse of the Berlin Wall, and it has changed in the decade since the Asian financial crises. Many of these changes have been in IFI governance and architecture: membership has expanded, the regional development banks have been created, missions have evolved, and governance structures have been adjusted—somewhat. However, international financial institutions change slowly.

It is useful to speculate on the reasons behind the slow pace of change of the IFIs.

First, all institutions are slow to change, and the IFIs are not exempt. Institutionalization brings with it inertia. Institutions generally are built for the long haul. Some argue that IFIs are built for business as usual when they should be built to put themselves out of business. That idea was embodied in the charter for the European Bank for Reconstruction and Development (EBRD). It might have been implemented if not for the global economic and financial crisis and the somewhat, but not entirely, related crises in a number of central and eastern European countries. Instead the governors of the EBRD agreed in May 2010 to a 50 percent increase in its capital. However, they included a provision to review the use of the capital after five years.

Second, change in the IFIs is perceived as a zero-sum game by members and the staffs of the institutions. Some country or program loses and another country or program gains. Programmatic gains and losses can be papered over by expanding the size and scope of the IFIs, but in the end the top management and the principal members are constrained by the amount of time and effort they can devote to the agenda of the institution as a whole. Choices are made and some programs are demoted if not eliminated.

In the area of governance, gains and losses by individual countries are more clearly zero-sum at least as perceived by the governments, bureaucracies, and citizens of the member countries. Country A gains in votes, voice, and influence and country B loses. Country B generally does not internalize the gains it receives from being a member of a more responsive and representative institution that commands greater respect and has greater influence on the policies of each of its members. Country A also generally does not recognize the loss to its own sovereignty that comes with a stronger voice and vote and the associated greater responsibility for the institution as a whole and for success in its mission.

Third, and largely as a result of the first two phenomena, when international financial institutions and their members confront the opportunity or imperative for change, the direction and pace of change is a matter of dispute. Some member countries want to scale back or redirect and enhance certain activities, eliminate some programs, or embark on new initiatives. Others want to institute reforms that threaten long-accepted ways of doing business. All this disagreement supports the interests of those who want to preserve the status quo and their status in the institution. This reinforces the institutional inertia and raises the stakes for the losers and winners.

THE ARCHITECTURE OF GLOBAL ECONOMIC GOVERNANCE

The architecture of global economic governance has two broad components: formal, established institutions and informal, ad hoc groups.

The established international, regional, and subregional economic and financial institutions face many challenges in responding to a changing global environment, but they have one advantage over the various ad hoc groups, such as the G-20, the G-7, G-8, G-10, and the CMI: legitimacy conveyed by formal political approval processes. The IFIs have formal charters that have been approved by national governments and parliaments or legislatures.

The ad hoc economic governance groups span a spectrum. They may be purely informal groups that exchange views on topics of common interest and, in some cases, coordinate positions on certain issues such as the G-5 in its early days, and Brazil, Russia, India, and the People's Republic of China (the BRICs) in their meetings today.[8]

In addition, bilateral swap agreements bind CMI participants together just as swap agreements originally bound together the G-10 in the early 1960s. But these ad hoc groups are not formal institutions. The Chiang Mai Initiative Multilateralization (CMIM) is a common swap arrangement of $120 billion established in March 2010 among the ASEAN+3 countries. The CMIM participants also have agreed to establish an ASEAN+3 Macroeconomic Research Office (AMRO) in May 2011.[9] This follows the G-10 pattern. The G-10 established the General Arrangements to Borrow (GAB) in 1962 to

8. The various groups may meet at the level of leaders, ministers, or below ministers. The G-5 countries are France, Germany, Japan, the United Kingdom, and the United States; they first met at the ministerial level in 1973. The G-7 also includes Canada and Italy. The G-8 includes Russia. The G-10 consists of the G-7 countries plus Belgium, the Netherlands, Sweden, and Switzerland; Switzerland initially was not a member of the IMF in the early 1960s when the G-10 was formed and was an associate member until it joined the IMF in the early 1990s. The BRICs are Brazil, Russia, India, and the People's Republic of China. The Chiang Mai Initiative includes the 10 Association of Southeast Asian Nations (ASEAN) countries plus three other countries: the People's Republic of China, Japan, and the Republic of Korea. The G-20 countries are the G-7, the BRICs, Indonesia (also a member of ASEAN), Australia and the Republic of Korea (the fifth and sixth Asian countries in the G-20), Argentina, Mexico, Saudi Arabia, South Africa, and Turkey. At the ministerial level, an additional member of the European Union may participate if the EU presidency is not held by one of four EU members of the G-7, making 20 country representatives. At the leaders' level, the Netherlands and Spain have managed to be invited in addition to a number of representatives of other regions such as ASEAN and Africa.

9. The AMRO is a successor to the ASEAN+3 Economic Review and Policy Dialogue, which has been held twice a year at the deputies' level. It also builds on the ASEAN Surveillance Process (ASP) established in the ASEAN secretariat in the wake of the 1997–98 Asian financial crises. See Henning (2009 and 2010) and Sussangkarn (2010).

lend to each other through the IMF and a collective surveillance mechanism outside the IMF in the form of Working Party Three (WP3) of the Economic Policy Committee of the OECD.[10] However, these ad hoc groups are not full, formal institutions.[11]

The CMI and CMIM may be considered to be institutions at the subregional level, but their creation was essentially an ad hoc response to the Asian financial crises. So too was the case with the creation of the G-10 in response to pressures on the Bretton Woods system of fixed exchange rates and the G-5/G-7 in response to the collapse of that system, to the creation of the Committee of Twenty on Reform of the International Monetary System to put it back together, and to the oil crisis of 1973–74. The Asian subregional architecture has not been entirely set as is demonstrated by discussions about inviting Australia, India, and New Zealand to participate in the CMI and by meetings of the ASEAN+3 with those countries in the East Asian summits.

The ASEAN countries alone account for 9.8 percent of Asian GDP at current exchange prices and exchange rates, and 15.4 percent of the population of Asia. Those figures increase to 80 percent and 54.9 percent respectively for the ASEAN+3 group of countries, and to 96.2 and 86.9 including Australia, India, and New Zealand.[12] The challenge for members of the CMI is not only how they define what some see as a nascent Asian Monetary Fund vis-à-vis the IMF but also how they define its role vis-à-vis the other 30 or so other Asian countries. The challenge for the Asian countries as a group, for example in the context of the ADB, is how to resolve the tension between Asian separateness and Asian leadership.

THE FUTURE OF THE G-20

Over the past two years, the G-20 has evolved rapidly into an effective crisis management steering group for the global economy and financial system. At the same time, the G-20 has been criticized for being unrepresentative. Including the European Union as a whole, the G-20 represents 88 percent of global GDP (83 percent on a purchasing power parity [PPP]basis) and 65 percent of the world's population.[13]

10. In 1983 the GAB was modified to permit the participants to decide to lend to the IMF to support economic programs for nonparticipants. In 1998, the NAB was established. It incorporated the commitments of the 11 G-10 countries to the GAB, which remains in existence, and added 14 new participants. Chile became a participant in 2002. As result of the G-20 agreement in April 2009 and a subsequent decision by the IMF executive board as described above, an additional 13 countries are expected to become participants, for a total of 26.

11. One could also consider specialized ad hoc groups, with limited memberships, such as the Basel Committee on Banking Regulation and the Financial Stability Board, the enlarged and expanded successor to the Financial Stability Forum, which has a broad mandate to coordinate and initiate activities with respect to the international financial system. See Schinasi and Truman (2010).

12. On a purchasing power parity (PPP) basis, the figures for GDP for the three country groupings are 12.6, 75.5, and 94.3 percent respectively.

13. The 19 core country members of the G-20 account for 77 percent of global GDP at current prices and exchange rates, 75 percent on a PPP basis, and 62 percent of world population.

Nevertheless, the argument is that 35 percent of the world's population and about 80 percent of countries in the world have no voice at the meetings of the G-20. Thus, when the G-20 in Pittsburgh on September 25, 2009 "designated the G-20 to be the premier forum for our international economic cooperation," many officials and observers took offense.

Some saw the G-20 statement as merely elevating the G-20 relative to the G-7/G-8. The G-20 leaders qualified their statement by referring to "our" cooperation, but that offended the established international organizations because of the inference that the G-20 countries would not cooperate elsewhere, and by referring to "economic" cooperation, but that is a rather broad term.

Critics include Svein Gjedrem (2010), governor of the Central Bank of Norway, who sees the G-20 as lacking in governance and legitimacy. The government of Singapore led the formation of the Global Governance Group (3G) consisting of 27 countries who argue that the G-20 must recognize the United Nations as the only body with universal participation and unquestioned legitimacy, consequently accord the secretary general and his Sherpa full rights to participate in G-20 summits and preparatory meetings, and endorse a variable geometry to allow other countries to participate in G-20 ministerial meetings and working groups on issues of specific concern to them.[14] Rana (2010) concentrates on how to maximize ASEAN influence in the G-20 by formalizing participation in G-20 summit meetings by the ASEAN chair and secretary general, development of common ASEAN positions to bind ASEAN participation, and endorsement of the 3G proposals. It is noteworthy that ASEAN already has a permanent "representative" in the G-20 in Indonesia, a country with one-third of ASEAN's GDP and almost 40 percent of its population. The participation of three other ASEAN countries in the 3G initiative does not say much for ASEAN cohesion.

These criticisms of the G-20 focus on form over substance, which is unfortunate. For the restoration of health and subsequent vitality of the global economy and financial system, substance is what matters.

From the standpoint of the G-20 countries and their leaders, the G-20 framework is a tempting and convenient framework to use to address an increasingly wide variety of global issues. This is the path that the G-5/G-6/G-7 took after its establishment first as an economic forum in the early 1970s.[15] On the one hand, the G-20 leaders and their governments should resist the temptation of mission creep because in doing so they would risk further undermining their legitimacy and authority. On the other hand, on many issues, ranging from climate change to world trade, the G-20 brings together the key, relevant countries and some issues cannot be resolved except at the leaders' level in the context of an action-forcing event such as a scheduled meeting.

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14. See Chowdhury (2010) and Menon (2010). The 3G group includes five Asian countries among its 27 members: Brunei Darussalam, Malaysia, New Zealand, the Philippines, and Singapore.

15. On the history and evolution of these groups, see Meyer et al. (2002), Sobel and Stedman (2006), and Truman (2004, 2006c).

The test for the G-20 leaders is whether their decisions and initiatives are, and are perceived by others to be, in the mutual interest of the participants along with the common interest of the system as a whole.

A G-20 focus on matters that directly affect the interests of the G-20 countries as a group should meet that test. If the G-20 countries do well at running their affairs individually and collectively, the rest of the world will benefit.

An area where they have failed to date is the completion of the Doha Round of multilateral trade negotiations. The G-20 leaders have stated their positive intentions, and in the Pittsburgh G-20 summit set a completion deadline of the end of 2010, but nothing has happened despite the fact that these nations acting together could deliver an agreement if they had the proverbial political will. In advance of the Toronto G-20 summit Jeffrey Schott (2010) advocated specific additional commitments by the G-20 countries to drive this process: filling in the gaps in the Doha negotiations with improved offers on agriculture, manufactures, and services; broadening the benefits for the least-developed countries via technical and financial assistance as a way to support meaningful progress on duty-free/quota-free treatment for these countries; and pushing for a moratorium or "peace clause" on trade restrictions based on the carbon content of imports. The key aspects of these recommendations are that they are: (1) concrete; and (2) directed at the G-20 countries themselves acting for the system as a whole.

Trade is one example of where the G-20 under Asian leadership can emphasize substance and not engage unduly in mission creep. Another example is the G-20 mutual assessment process aimed at a comprehensive action plan to promote balanced, sustainable global growth where systemically important countries that are part of the G-20 have substantial responsibilities. If, coming out of the meeting in Korea in November, the G-20 cannot demonstrate that it has delivered on this agenda item, the G-20 leaders will have ducked their responsibility, and Asia is likely to bear a large portion of the blame—deserved or undeserved.

The IMF staff (2010d) quantified the potential benefits from collective action by the G-20 countries to achieve balanced, sustainable global growth: global real GDP would be higher by $1.6 trillion (2.5 percent) in 2015. The direct benefit to Asia would be about $250 billion, split roughly equally between Japan and emerging Asia. In the downside scenario, the loss in real GDP is estimated at $2.1 trillion for the world and $350 billion for Asia. Because of its potential for rapid growth, openness, and diversity, Asia has a great deal to gain from international cooperation and a lot to lose if it fails. The IMF staff estimates did not quantify the consequences for Asia and the world of an increase in protectionism if the G-20 fails to achieve balanced global growth.

The leaders of the individual G-20 countries meeting in Seoul should state precise, new, numerical commitments in support of the goal of an economic recovery and subsequent expansion that broadly benefit all stakeholders in the global system. If the leaders do no more than repeat broad statements about reducing budget deficits and public debt levels, implementing structural reforms, and allowing greater exchange rate flexibility, they will deserve the criticism they will and should receive. In this connection, the Asian countries are individually and collectively in the strongest position, but they also are highly vulnerable to another systemic disruption because of their substantial dependence on export-led growth (Eichengreen 2009 and Goldstein and Xie 2009). They must take the lead with concrete changes in policies. For example, they should commit to numerical targets for their current account positions and announce specific measures to achieve those targets. The other G-20 countries should follow the Asian lead. For example, the United States should commit to reform its social security system by the end of 2011, which would help to address the US medium-term fiscal crisis, contribute to confidence, raise the US saving rate, and thereby contribute to limiting global current account imbalances.

With respect to form, Asia and the G-20 leaders not only should resist expanding their mandate but also should resist institutionalization. If they cannot resist institutionalization, that decidedly second-best option should involve several elements.

First, the European Union countries should be limited to two seats (one for the euro area and one for the non–euro area). At present, almost a third of the country representation in the G-20 (7 out of 22) may come from the European Union: the four European members of the G-7, Spain, the Netherlands, and another European country that happens to hold the EU presidency. The Europeans resisted the expansion of the G-7/G-8, effectively conspired with the United States to marginalize the G-20 at the ministerial level by limiting the attention the G-20 ministers and governors paid to current issues, in contrast with longer-term trends and developments.

Second, if the G-20 is to be institutionalized, the remaining seats for leaders should be selected via constituencies and the total number of such seats preferably should be no more than 20. This should be accompanied by reducing the size and realignment of representation on the IMF executive board and the IMF's International Monetary and Financial Committee (IMFC). (Reducing the size of these bodies is less important than reallocating representation on them though smaller size offers efficiency gains.) The disadvantage of constituencies is that individual leaders feel constrained by obligations to represent the consensus of their constituencies and speak and act less freely. This was the reason why the constituency approach was rejected when the G-20 was established. However, a smaller group with more balanced representation might be an offsetting benefit.

Third, institutionalization of a secretariat should not be part of structural reform. The G-20 practice of using a troika of the past, present, and future chairs, which reportedly operates more informally at the leaders' level than at the ministerial level, provides enough continuity without burying the leaders with an agenda that in fact they do not address. The leaders should be free to address the issues of the moment that they regard as important rather than pretending to address issues that their ministers and staffs want to see on the agenda. For similar reasons, the G-20 should draw upon the expertise of the international economic and financial organizations and request inputs from them, but the role of the institutional representatives should be as observers, not as agenda setters.[16]

THE G-20 AND THE INTERNATIONAL FINANCIAL INSTITUTIONS

Turning to the formal, established components of the architecture of global economic governance, the IFIs are in a state of flux. Unfortunately, crises are frequently necessary to bringing about real change, but what type of change? There is a demand for more rules to constrain the actions or inactions of other countries. There is a conflicting demand by the same countries for more discretion or optionality in their own policies. One way of responding to these demands is to provide more clarity about the IFIs and their objectives and structures as well as about how regional institutions (ad hoc as well as formal) mesh with global institutions and how subregional institutions mesh with regional institutions.

I favor one system for one world. The same fundamental rules, standards, and procedures should, in principle, apply to all countries. In practice, adjustments may need to be made for a country's stage of development, but those adjustments should be seen as deviations from the norm that applies to all. As a practical matter, countries also have different cultures and political systems and philosophies, but in most areas of economic and financial policy, those differences are not germane. All political systems tend to resist change, but the laws of economics (supply and demand and budget constraints) apply regardless.

The alternative to one system is diversity, or at least a reliance on subsidiarity. The advocates of diversity argue that distant decision makers and bureaucrats don't always get things right. The economic and financial performance of the system as a whole on average is therefore aided by decentralized decision making even if that structure produces what are agreed ex post to be negative externalities. This approach essentially argues against any form of international economic and financial policy coordination beyond information sharing. The advocates of subsidiarity argue that it conveys legitimacy on decision-making processes by bringing decisions closer to the citizens. The advocates of a common framework even if implementation is decentralized can point to the global economic and financial crisis. It affected countries differentially and, consequently differentiated responses were appropriate, but those responses were mindful of the global context.

16. In this regard, I do not regard the United Nations as an economic or financial organization. We do not have global government, and the United Nations has had few accomplishments in the global economic and financial arena, nor was it established to do so. On this basis, I would not have favored including the United Nations in the Washington G-20 summit, but that die has now been cast.

The increased complexity and integration of national, regional, and global economies and financial systems point toward common rules and standards that apply to all countries, but many resist those trends much as they resist global integration itself. In many respects, Asia's diversity makes it a microcosm of the world as a whole. This can be an advantage or disadvantage to Asia. It is up to the leaders in Asia to turn Asia's diversity into an advantage.

As is well known, Asian leaders are struggling with how to balance what they see as the separateness of Asia, and a celebration of its successes over the past decade that sometimes borders on triumphalism, with Asia's high degree of integration with the global system. The example of Europe is often cited favorably in Asia with respect to integration, mutual support, common policies, and ultimately, perhaps, a common currency.

My reading of European economic and financial development over the past four decades is that European leaders turned their attention inward more than was healthy for Europe. They tried to set up economic financial institutions that were entirely separate from global institutions such as the IMF. One adverse consequence was that the Europeans tended to worry more about the form of their involvement with the IMF, one of near dominance from about 1960 on—when they had recovered from World War II—than about the substance of the institution's work even as the world was changing. European nations opted for a different balance between external financial support and policy discipline and reform at the global and regional levels. At the global level, they tried to limit financing and emphasize rigorous policy conditions. At the regional level, starting in the mid-1970s, when a European country faced financial difficulties, it turned not to the IMF but to its European partners and a variety of European mechanisms over time that delivered financial assistance to member countries with few or weak policy conditions. Europe applied a double standard to its partners.

During the 2008–10 phase of the recent crisis, when it became clear that the balance within Europe had tilted too far toward financing, European leaders turned to the IMF. A global standard was applied, first in countries in Eastern Europe that are members of the European Union, but not members of the eurozone, and later in Greece and potentially other members of the eurozone in the context of activation of the European Financial Stability Facility.

The recent economic and financial problems of Eastern Europe, Greece, and possibly other countries also underscore the fact that the world is not divided forever into one group of permanent creditors and another group of permanent debtors or into countries that are in need of fundamental economic and financial reform and those that are not. The second part of this observation and, perhaps again the first, applies to the United States as well. On the basis of the recent European example, as well as my bias in favor of one system, my conclusion for Asia is that those that favor severing the link of the CMI and the CMIM completely with the IMF should think more deeply. Independent surveillance and conditionality are more dependable and additional outside financing can be useful as well.[17] Singapore's finance minister Tharman Shanmugaratnam (2010) was quoted in mid-July on this point:

> We have the opportunity to develop a financial safety net which involves both regional coinsurance and the IMF as global insurer. We are better off with both regional surveillance and IMF surveillance rather than one or the other. It will also enable us, when crises hit, to respond with the speed and magnitude that modern day crises need. The lessons of the past two years is about interconnectedness, no matter where a crisis starts . . . contagion is fast and furious.

A failure to learn this lesson can have systemic consequences. For example, the delays in Europe in turning to the Fund exacerbated negative effects on the crisis countries, on Europe as a whole, but also on the global economic and financial system. At the same time, engagement should be two-way as I discuss below.

The institutions of international finance can become ossified or out of date. When the charters of the institutions were drafted, the process was driven by those who held the power and the pen. They made compromises, and the nature of those compromises reflected the culture of the time. But the consequences only became apparent much later. For example, during the third quarter of the 20th century—immediately after World War II—legitimacy, ownership, and accountability were not major components of institution building, but they are today.

As times have changed, questions have been raised, for example, about how the heads of the international and regional institutions are chosen, not just the heads but the principal deputies as well. Political leaders and constituencies see change in the status quo in the selection of heads of IFIs as a quintessential zero-sum game. It is also one that some international organizations, such as the Bank for International Settlements (BIS), the OECD, the WTO, and the United Nations, have addressed more successfully than others, in particular the IFIs. Miles Kahler has written persuasively in favor of rationalizing the choice of leaders by standardizing the procedures and opening up the process.

An open, merit-based selection process already has been accepted de facto, as well as in G-20 statements, for the heads of the IMF and the World Bank though not further down in those institutions and not in the regional development banks. This situation demonstrates that "nationality" as a criterion lies just below the surface as, perhaps, should be the case if the issue is representation rather than efficiency.

17. An additional reason advanced by Eichengreen (2009) is that the CMI and CMIM are untested mechanisms of mutual financial assistance. A decade after the CMI was first proposed, it was not even used during the 2008–09 phase of the recent crisis in part, some argue, because of the stigma associated with being the first country to use it.

The problem today is that the only way to demonstrate that the convention in selection of these heads has been abandoned is for the next IMF managing director not to be a European or the next president of the World Bank not to be a US citizen. I have no doubt that that will be the case, but the irony is that by insisting that the United States and Europe take the pledge in the form of agreeing that "nationality" should not be a factor in choosing the heads of these institutions, the proponents implicitly are violating their own principles by excluding some nationalities if their objective is efficiency or the best person for the position. Moreover, the political victory may be pyrrhic if they pursue it in Seoul. Doing so may make it more difficult to achieve agreement on other more important matters affecting these institutions.

The IFIs also face issues of accountability to the governments that are members of the institutions as well as to the general public. Compromises made when institutions were founded produce ambiguity today. For example, it is not clear what are the relative roles and responsibilities of the executive boards, the managements and the staffs of the institutions, and not all the standards that apply to the institutions' internal and external operations are self evident. Internal standards range from personnel practices to issues of integrity and transparency. External standards range from the promulgation of best practices to the rules that apply to all members and associated enforcement mechanisms. Increased clarity is demanded, including by NGOs, as discussed above, but it has been slow in coming. The principal responsibility lies with the leadership of the individual institutions and the members who make their rules.[18]

THE G-20 AND THE INTERNATIONAL MONETARY FUND

When the G-20 leaders gather in November in Seoul, a major part of the agenda will focus on the IMF and its role in the global economic and financial system. The IMF served the system well during the crisis of 2007–10 upgrading its crisis lending capacity by introducing the flexible credit line (FCL) and the high-access precautionary arrangements (HAPA).

The central issue is whether the G-20 will build on this successful operational modernization or allow the Fund to languish and delay further change until there is another crisis. Will they move the IMF closer to becoming an international lender of last resort? This topic has two components: design and financing.

With respect to design, elements for an improved global financial safety net are on the table and the G-20 leaders in Seoul should endorse them. The principal elements are: (1) a further relaxation of the amounts and terms of access to the FCL for countries with very strong fundamental policies; (2) the establishment of a precautionary credit line (PCL) for countries with generally sound policies, but do not

18. I have written about this responsibility in Truman (2010b).

qualify for the FCL and to whom actual lending would have to be accompanied by limited, streamlined conditions (ex post conditionality) on economic and financial policies; and (3) a multilateral lending facility, or global stabilization mechanism, through which, in a crisis, the IMF could offer financing to a group of countries with sound policies, either in a region or more broadly, that risk being affected by a regional or global crisis.[19]

These elements are useful additions to the IMF's lending tool kit as far as they go, but they should be embedded in a broader framework that would move the IMF even closer to a role as an international lender of last resort by systematically addressing the moral hazard dimension of this role in addition to the financial facility role. Central banks as lenders of last resort to financial institutions combine essentially unlimited access to funds with close supervision and regulation of the potential recipients of those funds. The aim is to limit the potential for a financial institution to add excessive risk to its portfolio and then turn to the central bank for liquidity support in what amounts to a bailout when the institution is in fact insolvent or close to that condition.

To tie IMF lending more tightly to policy surveillance and supervision, I have for several years advocated in private conversations and presentations an approach to the IMF's role in crisis lending that combines the availability of different facilities to members in a range of possible circumstances with the IMF's role in bilateral, and potentially multilateral, surveillance: comprehensive prequalification.

Comprehensive prequalification would work as follows. Every member of the IMF is obligated to have an annual Article IV consultation and review of its economic and financial policies by the IMF staff and executive board.[20] As an integral part of these reviews in the future, the IMF staff would indicate on what policy terms every member country would be potentially eligible to borrow from the Fund. For the country with very strong fundamental policies and a track record of policy performance, the staff would state that the country would be eligible to borrow under the FCL. For the country with generally strong policies, the staff would state what changes in policies or policy commitments would be necessary to qualify it for lending under the PCL. For the country with weak policies or a weak track record, the staff would outline the changes in policies that would be necessary as part of a traditional stand-by arrangement (SBA).

This framework would apply to all countries, and the recommendations should take into account changing global economic and financial circumstances. The IMF executive board could comment on the

19. These proposals were sketched out in IMF 2010a in which the multilateral lending facility is described as a multi-country swap facility, building on the concept of the swap arrangements provided by the Federal Reserve System and other central banks to a more limited degree during the 2008–10 phase of the crisis. On August 30, the IMF issued a press release (10/321) announcing the executive board's approval of the first two elements and continued discussion of the global stability mechanism (www.imf.org accessed August 31, 2010). See also IMF 2010b and 2010c.

20. For some smaller members the reviews are on an 18-month cycle.

staff recommendation, as it now does on the staff policy assessment, but the board would not be required to act on it. Implementation of the approach should be supported by a commitment to make these staff reports public promptly and without significant modification. Under this framework, it would also be necessary to link the Article IV consultations more closely to financial sector assessments and to the work of the FSB, which is desirable in any case as argued by Schinasi and Truman (2010).

For example, the staff report on the US Article IV consultation might state that in the staff's judgment the United States would only be eligible for a PCL, not an FCL, and a PCL would be subject to policy conditions with respect to a longer-term fiscal plan to place public debt on a sustainable path, further concrete actions to control healthcare costs, and implementation of planned and additional financial sector reforms. Each of these topics was covered in the staff report for the US Article IV consultation (IMF 2010e). What would be necessary would be to make those recommendations more concrete and link them to a judgment about where US policies put the United States and the spectrum from FCL to PCL to SBA.

The multilateral consultation process would be introduced into the proposed framework via assessments of the global economic and financial environment. These assessments could lead to a staff recommendation with respect to support for a group of countries as with the multilateral lending facility or global stability mechanism.

The comprehensive prequalification approach as a whole should help to reduce the stigma problem of borrowing from the IMF. Countries would be responding to what in effect would be an invitation from the IMF staff to borrow on specific terms.[21]

Turning to the financial component of the IMF's lender of last resort role, it further requires the availability of significant amounts of financing if it the Fund is to be credible in this role. To that end the G-20 in Seoul should endorse a doubling of IMF quotas. In addition to providing the Fund with at least $250 billion in new financing, bringing its total lending capacity with the enlarged NAB to $1 trillion, a doubling of IMF quotas would have other advantages.

Doubling IMF quotas would rebalance the IMF toward its traditional structure of a quota-based international financial institution. It also would provide each member of the IMF in 2012, when the increase in quotas would most likely take effect, with an increase in its quota for the first time since 1998—a period in which global GDP is projected to have increased by more than 125 percent, global trade more than 200 percent, and global financial transactions by substantially more than that. It was a grave mistake by the management and members of the IMF not to have approved a general increase

21. A softer version of this approach was sketched out in IMF 2010a. Its emphasis was more on the prequalification aspect than on the comprehensive link to IMF surveillance of the economic and financial policies of all members. As reported in IMF Public Information Notice 10/51 of April 22, 2010, most directors did not support a running list of countries that had prequalified for the FCL, which is only one part of my proposal.

in IMF quotas in January 2008, at the end of the previous quinquennial review, which coincided with the outbreak of the largest financial crisis since the Great Depression. The IMF needed regular quota resources; all members of the IMF deserved increases in their IMF quotas, the basis for their drawings and contributions to the Fund as well as their votes. As argued below, a doubling of IMF quotas would facilitate providing each member with an increase in its quota while at the same time redistributing quota shares.

In addition the G-20 leaders in Seoul should endorse an amendment of the IMF Articles of Agreement that would allow the IMF to approve a special, temporary allocation of SDR in a crisis, perhaps subject to endorsement by the IMFC prior to action by the IMF executive board but without requiring an 85 percent vote of IMF governors. A supermajority of, say, 60 percent might be required, but the subsequent cancellation of the SDR over a five-year period following a declaration of the end of the crisis might require only a majority vote.

Finally, the G-20 leaders in Seoul should endorse an amendment of the IMF Articles of Agreement that would authorize the IMF temporarily to issue SDR to the central banks that issue the international currencies included in the SDR basket in exchange for their currencies that would be used to lend to other central banks specifically to support their financial institutions. This proposal has three advantages: (1) The mechanism would temporarily augment the IMF's financial resources and help to centralize this type of lending in the IMF. At the height of the recent crisis, this type of support amounted to more than $600 billion.[22] It was provided via the swap lines of the Federal Reserve and European Central Bank. (2) The mechanism would permit the issuing central banks to use the SDR to obtain foreign currencies if they need them to offset exchange rate pressures resulting from the liquidity support operations. (3) The mechanism would enhance the role of the SDR and hopefully limit somewhat the precautionary demand for increases in international reserves.[23]

IMF reform is about striking a better balance: a better balance between adjustment and financing, a better balance between borrowed and quota-based funds, and a better balance on the IMF executive board. Most observers agree that at present representation on the IMF executive board is skewed excessively toward Europe, which potentially occupies 10 of the 24 seats on the IMF executive board.[24] Thus, Europe potentially provides more than 40 percent of the voices on an executive board that reaches decisions by consensus, where voices count, with only about 30 percent of global GDP at market prices.

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22. It is not necessary or desirable to provide the IMF with permanent resources to do this type of lending, which is inherently temporary but substantial.

23. I first made this proposal in Truman (2008).

24. EU countries control six seats directly and are significant or dominant members of the constituencies associated with three other seats. Switzerland dominates another constituency, which also includes a major member of the IMF: Poland.

The current structure of the IMF executive board reflects history and a distribution of voting power that is skewed by history and does not reflect current and prospective economic and financial balance in the world. After many years of stonewalling by the Europeans, the salience of this issue on the IMF reform agenda was recently enhanced by the US decision not to support a continuation of a 24-member executive board until the Europeans agreed to reduce their representation.[25] This matter is expected to be resolved before the G-20 meets in Seoul.

The G-20 leaders should applaud their European partners for agreeing to reduce their executive board representation in 2010, but also for their commitment to consolidate their representation progressively in the future to two or, at most, three seats.[26] IMF Managing Director Strauss-Kahn, speaking at the Peterson Institute for International Economics on June 29, 2010, strongly agreed that reducing European representation on the IMF executive board is the most important single item on the IMF structural reform agenda.[27]

The size of the executive board also should be returned to 20 seats to increase its efficiency and to save money by reducing the embarrassingly large share of the administrative expenses—almost 10 percent as of 2006—that is devoted to servicing the current governance structure (Crockett Report 2007). However, this is less important than the issue of improving the allocation of chairs on the executive board.

One hears a number of self-serving arguments on this topic. For example, it is said that European executive directors provide a high level of service to the non-European members of their constituencies. This argument sounds a bit like colonialism. Another argument is that if the executive board were shrunk to 20 seats, the four constituencies with the smallest number of votes would be at risk, those now headed by Brazil, India, Argentina, and Rwanda. This argument ignores the potential for increasing the voting power of these constituencies. More important, this argument ignores the fact that the distribution of executive board constituencies has always involved a prevote negotiation, in which the number of candidates matches the number of open seats. This is necessary to ensure that every member of the IMF is represented on the executive board. The Europeans have an obligation to negotiate in good faith on the upcoming election.

25. The IMF Articles of Agreement authorize a 20-member executive board and its size can only be altered by an 85 percent majority vote. Over the past several decades, such votes have been held every two years in connection with the biennial elections of IMF executive directors. In 2010, the United States, with more than 16 percent of weighted votes, declined to vote for this decision.

26. The objective should be one seat for the members of the eurozone, one seat for nonmembers of the eurozone, and possibly one seat for European nonmembers of the European Community. It would also be desirable to amend the IMF Articles of Agreement so that all executive directors are elected.

27. Strauss-Kahn's remarks, including the question and answer session in which addressed this issue, are available at www.piie.com/event_detail.cfm?EventID=158.

The issue of chairs is not the only IMF issue on the agenda for the G-20 summit in Seoul. The G-20 leaders in Pittsburgh and Toronto committed "to a shift in [IMF] quota share to dynamic emerging-market and developing countries of at least 5 percentage points from overrepresented to underrepresented countries." This issue has been around for a long time. After three years of negotiation ending in 2008, only a small amount of progress was made.[28] As noted earlier, that progress was so limited that more than two years later the required majority of countries have not ratified the 2008 agreement. Delivering on the G-20 commitment has enormous symbolic importance for the G-20, the IMF, and international economic and financial cooperation.

The challenges for the G-20 on the shares issue are many. First, a crucial issue is the interpretation of the agreement in Pittsburgh and Toronto. It should be interpreted as requiring a shift of quota share away from the mature advanced economies to the emerging-market and developing countries, in particular those that are most dynamic, and a simultaneous broader redistribution from overrepresented to underrepresented countries within both groups. Second, the G-20 leaders complicated the task by declaring that the redistribution on quota shares should use the current IMF quota formula (agreed in 2008) as the basis to work from and that the voting share of the poorest member countries in the IMF should be protected. With these constraints, and potentially others, there may be no solution.

The major challenge is that the 2008 quota formula essentially points in the wrong direction. The flaws in the formula are many (Bryant 2010, Cooper and Truman 2007, and Truman 2008). One is that to include as a so-called openness variable gross current account transactions merely reinforces measures of economic size; if included at all, the variable should be scaled by GDP. A second flaw is that transactions among participants in economic unions should be excluded. Another is that the variable for the variability of international transactions also should be scaled by GDP. And fourth, there is no rationale behind introducing a compression factor other than arbitrarily to redistribute the results of the formula itself; It reintroduces non-linearity into the formula to achieve an arbitrary result. Other flaws could be added to this list.

As can be seen by comparing the first and second columns in table 1, if the 2008 quota formula were to be the sole basis for distributing quota shares and that shift was implemented entirely at this time, the result would be a shift of only 2.1 percentage points in combined quota share from the traditional advanced countries to the rest of the membership of the IMF and a reduction in the quota share of the European Union, commonly viewed as the most overrepresented group of countries, by only half a percentage point; see first memorandum item.[29]

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28. See Bryant (2010) and Truman (2006a, 2006b, and 2008).

29. I use the phrase "traditional advanced countries" to exclude Korea and Singapore, which are now classified by the IMF as "advanced countries" except in the context of quota share discussions. Those two countries are not included in the advanced-advanced country group in table 1.

From the second memorandum item, one can see that a plausible set of 23 potential "dynamic emerging-market and developing countries" would have their quota share boosted by 6.3 percentage points by the new formula.[30] However, this observation points to a problem: Contortions would be required to get from the first column to the second column while satisfying all the other constraints. The objective is not just to pick winners, to pick losers, and to pick those countries whose relative positions are to be unchanged, but to reach a result transparently and at the same time to produce a doubling of IMF quota shares in which each member receives some increase in its quota.

To illustrate these issues, assume a division of the IMF's members into three groups of countries with equal one-third shares of total quotas after the 2008 adjustments are implemented: One group whose individual quota shares on average and combined quota share should increase by 5 percentage points; a second group whose quotas should increase but whose individual quota shares on average and combined quota shares should be unchanged; and a third group whose quotas would be unchanged but whose combined share would decline by 5 percentage points. Under this scenario, the distributional constraints could be satisfied with an overall increase in quotas of 17.6 percent and the same for the middle group on average.

This scenario would fail to satisfy the objective of facilitating a large overall increase in IMF quotas to restore it to a quota-based organization and also to give every member an increase in its quota. On the same assumptions as in the above example, a doubling of total quotas, and the quotas of the middle group, would allow for a 70 percent increase in the quotas of the third group, along with a 130 percent increase in the quotas of the first group. This result is more reasonable and plausible, but it is not clear how IMF members would reach this result as part of a process of transparent, rational decision making using only the 2008 quota formula.[31]

An ad hoc procedure to produce the winners and losers would involve an overlay of factors on top of the 2008 formula. A transparent and more progressive approach would be to employ an overlay that would not be purely ad hoc but would employ a supplementary formula. This supplementary formula would be used in the future and the 2008 formula would be phased out. This would be analogous to the gradual replacement of the original Bretton Woods quota formula.

30. Following Bryant 2010, the 23 countries are: Angola, Azerbaijan, Belarus, Brazil, the People's Republic of China, Colombia, Egypt, Equatorial Guinea, Jordan, India, Indonesia, Kazakhstan, Malaysia, Mexico, Pakistan, Panama, Peru, the Philippines, Poland, the Russian Federation, Thailand, Turkey, and Vietnam.

31. The World Bank (2010), unconstrained by a formula other than that dictated by the current distribution of voting shares, arrived at the G-20-agreed objective of at least a 3 percentage point shift in voting shares to developing and transition members via a combination of measures of economic weight, adjustments to those measures of economic weight, thresholds and limits, boosters of various types, forbearance, and dilutions. The contortions were an exercise in nontransparency. A promise was made that these ingredients would later be transformed into a new formula for the Bank, but one can be skeptical that this will be achieved.

Table 1 demonstrates how such an approach would work, based upon the illustrative quota formula advanced by Bryant (2010) and updated using data released by the IMF on June 10, 2010.[32] The results presented in table 1 combine with equal weight the quota share from the 2008 formula (column 2) with the quota share from the Bryant formula (column 3) and use the combined share (column 4) to distribute a doubling of total IMF quotas. Thus, each member of the Fund receives an increase in its quota proportionate to the combined share.[33] The resulting new quota share is shown in column 5. Column 6 shows changes in quota shares in percentage points, and column 7 shows the changes as a percentage of the difference between column 1 (the post-2008 quota shares) and column 3 (the presumptive target based on the Bryant formula).

The proposed approach summarized in table 1 has the following positive features:

First, every member of the IMF receives an increase in its quota.

Second, the approach achieves an immediate shift of 3.2 percentage points in quota shares between the traditional advanced countries to the other members of the Fund.

Third, focusing on the illustrative group of dynamic and emerging-market and developing economies, it achieves a shift toward them of 4.3 percentage points.[34]

Fourth, the combined quota share of the Poverty Reduction and Growth Trust (PRGT)-eligible countries (a proxy for the poorest members) would be increased slightly by 0.35 percentage points as a

32. The revised calculations using the new data were performed by Ralph Bryant for which I am very grateful. Summarizing the illustrative Bryant formula, it would raise the weight on the global share of GDP at market prices and exchange rates from 30 percent in the 2008 formula to 31 percent, raise the weight on the global share of GDP on a PPP basis from 20 to 31 percent (providing parity), reduce the weight on the global share of unscaled current account transactions from 30 to 5 percent, reduce the weight on the global share of unscaled variability from 15 to 10 percent, reduce the weight on the global share of international reserves from 5 to 3 percent, introduce with a weight of 5 percent a "ratio share" for openness equal to the ratio of the unscaled current account transactions variable to GDP to the sum of the ratios for all countries, introduce with a weight of 3 percent a similar "ratio share" variable for variability, and introduce with a weight of 12 percent a new population variable (as of 2008 from *World Development Indicators*). Bryant (2010) provides a spirited defense of his use of the population variable. The illustrative Bryant formula also does not include the arbitrary compression factor that is part of the 2008 formula.

33. In IMF parlance, this approach would not involve an equiproportional increase in quotas (based on current quotas) or an ad hoc increase in quotas of certain members based on special criteria. Rather all the increase would be based on a double-barreled selective increase in quotas in which one barrel would be the 2008 formula and the second barrel the illustrative Bryant formula.

34. In the context of the approach demonstrated in table 1, if the aim were to produce a shift of 5 percentage points toward this particular group of countries, the weight on the 2008 formula could be reduced to 17.5 and the weight on the illustrative Bryant formula could be increased to 82.5. Note, however, that the Bryant formula itself takes off from the 2008 formula as explained in footnote 31.

down payment on an increase of 3.1 percentage points.[35] Note that the 2008 formula points the share of this group of countries in the "wrong" direction, toward a reduction of 1.7 percentage points.[36]

Fifth, moreover, under the approach outlined in table 1, it would not be necessary to freeze the quota share of each individual country in the group of PRGT-eligible countries by doubling their quotas. An alternative approach would freeze only the quota shares of those PRGT-eligible countries whose quota shares would otherwise decline while allowing an increase in the shares of other countries. This type of distortion is totally unjustified; some reallocation of quota shares within this group, as well as among all other members of the IMF, would appropriately reflect their changing economic and financial fortunes.

Sixth, the approach demonstrated in table 1 can be extended in the future. Note that the Bryant formula does a better job of pointing in the right direction of changes in quota shares, based on current data and one might reasonably presume future data. Comparing columns 1 and 3, there is a 10.7 percentage point implied shift to countries other than the traditional advanced countries, and an 8.2 percentage point reduction in the combined share of the European Union.

Seventh, permitting adjustments in quota shares within the European group would help to bring their combined share in closer alignment with that of the United States.

Eighth, as shown in the last two columns of the table, the proposed approach would involve a small reduction in the combined share of the other nonadvanced countries, moving them away from the target represented by the Bryant formula. This is because the 2008 quota formula points toward a substantial reduction in the quota share of this group of countries and that reduction is ameliorated but its effect is not eliminated when the 2008 formula is combined with the Bryant formula; see the first four columns.

Ninth, and finally, to satisfy the G-20 commitment, the approach would take the 2008 formula as its basis or starting point, for better or worse, as called for by the previous statements by the G-20 leaders. The 2008 formula is combined with the illustrative Bryant formula. Moreover, the Bryant formula itself includes all the variables in the 2008 formula.

Turning from IMF governance back to substance, as discussed above in connection with the G-20 framework for balanced, strong, sustainable growth, a major challenge in the evolution of the global economy going forward is meeting the demands of countries for self-insurance via increases in their international reserves and the associated preference for current account surpluses achieved via currency

35. The voting share of this group of countries would be increased slightly less as their share in basic votes, the other component of voting shares, would remain unchanged.

36. A substantial part of the reason why the illustrative Bryant formula points in the "right" direction for this group of countries is the inclusion of the population variable with a 12 percent weight, but even without any weight on that variable the share of this group of countries would still point to a rise of 5.83 percent because of the role of the two ratio share variables for openness and variability. These countries' shares of these variables in the totals are 36.4 and 50.3 percent respectively.

undervaluation. This form of self-insurance tends to be costly to the individual countries as well as globally inefficient as it distorts the adjustment process.

One should be clear about the policy assumptions about the global economic system that give rise to such distortions of the adjustment process. First, they are the result of the presumed desire by some countries for ever increasing stocks of international reserves. Not all countries fall in this category. Excluding Japan, the stock of nongold reserves of the traditional advanced countries increased only 6 percent from the end of 2000 to the end of 2008.[37] By the end of 2009, the increase was 44 percent because the allocation of SDR that year.

Second, those countries with demands for increases in international reserves are assumed to prefer not to acquire them via private capital inflows. That may be the case for some countries, but it is noteworthy that for a number of the larger reserve accumulators between end of 2000 and 2007, that is before the crisis broke out fully, their reserve accumulations substantially outpaced cumulative current account surpluses. In the case of the Republic of Korea, its cumulative current account surplus was $80 billion over that period, and the increase in its nongold reserves was more than double that figure, $166 billion. However, as discussed below, private capital inflows raise other macroeconomic concerns.

Adoption of the package of proposals discussed above under the heading of a global financial safety net should contribute to some reduction in the precautionary demand for reserves. Consideration could also be given to regular SDR allocations to help meet this demand. However, there are two problems with this proposal by itself. First, the distribution of revealed preferences for rapid reserve accumulation does not match the distribution of quota shares, which is the basis for SDR allocations. The 26 top reserve holders, excluding the United States, held at the end of 2007 about 70 percent of nongold reserves and had less than a 30 percent share of IMF quotas. No likely amount of quota-share redistribution is likely to change that mismatch. John Williamson (2010) proposes to fix this problem by amending the IMF articles to divide IMF member countries into two categories—advanced countries and other countries—and within each category allocate SDR according to quotas with the shares going to each group based on the rate of reserve accumulation over the previous five-year period—revealed preference in other words.

There are three problems with this solution: First, the division between the two groups would be arbitrary: the Republic of Korea and Singapore are now treated in most IMF statistical contexts as advanced countries, and they arguably would not want to be in that group. Second, it is doubtful that the basic mismatch problem would be much improved in any case. Going further would tip the proposal in the direction of an SDR-aid link, which is anathema to many. Third, basing SDR allocations on revealed preference for demand for reserves would undermine the adjustment process.

It would be better to build on the proposal of Olivier Jeanne (2010). He suggests that the IMF request each member to provide a cost-benefit analysis of the appropriate level and, implicitly, the change

37. The increase was 59 percent including Japan.

in its precautionary international reserves as part of its Article IV consultations. Initially these targets, individually and collectively, would be analyzed and evaluated over time. Ultimately pressures could be brought to bear on countries that violated their objectives. Those pressures could include a tax on increases in reserve holdings beyond the targets. Combined with regular SDR allocations, this approach would provide a tighter link between SDR allocations and the adjustment process as was envisaged under the Volcker plan put forward by the United States during the Committee of Twenty negotiations on reform of the international monetary system in 1972–74 (Council of Economic Advisers 1973).

Reserve accumulations are sometimes related to capital inflows, which pose macroeconomic problems for a number of countries. Inflows feed reserve accumulations via the countries' resistance of upward pressure on exchange rates, and reserves also may be accumulated against the day when capital inflows reverse. We have an issue of causality, and it is difficult to generalize across countries.[38]

The consensus on international capital flows and capital controls has evolved over the past decade in the direction of greater concern about the impacts of inflows and greater tolerance for trying to control or influence them via policies. See Ostry et al. (2010). There is an open question about how much policy space there is to impose capital controls, but that is an empirical question.

The possibility of amending the IMF Articles of Agreement as they apply to capital flows and capital controls was dropped in the late 1990s and should be reconsidered. The G-20 meeting in Seoul could kick-start this process, perhaps by mandating a special working group drawn from interested members with an explicit timetable.[39] The process should start with a full-fledged examination to see if there is enough common agreement.

If there were sufficient agreement, the amendment should state the long-term goal of complete freedom of capital movements among countries, along with appropriate prudential regulations internally and globally. But there should be no timetable explicit or implicit to achieve this goal.

The amendment should guide national policies in terms of both the rights and the responsibilities of IMF members. For example, controls should be permitted. However, as much as possible, they should be applied on a nondiscriminatory, national treatment basis.

The amendment should describe and prescribe the role of the IMF management, staff, and members in conducting surveillance over capital flows and controls. The principal rationale for collective action is that both capital flows and capital controls generate externalities.

It would be worth considering whether the IMF should be empowered formally to "bless" capital controls (and whether such a power to bless would be ex ante or ex post) or merely to tolerate and provide advice about them. However, the amendment should remove the present anachronistic asymmetry in

38. Eichengreen (2009) anticipates a diminished pace of capital flows as financial regulation is tightened in the wake of the 2007–10 global economic and financial crisis, but the evidence to date does not support his view.

39. This material is adapted from Truman (2010a).

Article VI between current account transactions and capital account transactions and the use and nonuse of IMF resources to finance each type of transaction.

Reform in this area should not be separated from other desirable reforms of the international monetary and financial systems. In particular, IMF surveillance on this topic should be explicitly strengthened and extended covering the full range of policies of recipient countries that affect private and official capital inflows and outflows, which will be very intrusive. Importantly, and more controversially, IMF surveillance on this topic should be explicitly extended to the full range of policies of source countries that affect capital inflows and outflows, including monetary policies.

The G-20 leaders should embrace a forward-looking work program on capital flows. The topic should be of particular interest to many of the emerging-market countries that are members of the G-20. The quid pro quo would be a commitment by those countries to implement conscientiously the agreements and understandings that will be blessed in Seoul on international financial reform, again, in the interest of a single set of standards for the global financial system.

CONCLUDING OBSERVATIONS

The G-20 summit in Seoul is an opportunity and a challenge for Asian and G-20 leaders. The test will be whether they can demonstrate that the G-20 can responsibly advance an agenda in the interests of the global economic and financial system as a whole. In this paper, I have made a number of specific recommendations.

The first principal recommendation is that the G-20 leaders deliver concrete policy actions as part of the mutual assessment process supporting the G-20 goal of strong, sustained balanced global growth. In this area, Asian leaders have a special opportunity to demonstrate their responsibility and commitment to the system as a whole, which would also benefit Asia.

The second principal set of recommendations is to strengthen the IMF and its role in the international economic and financial system. To this end, the G-20 should agree to a substantial expansion of the role of the IMF as an international lender of last resort by creating a better global financial safety net. That mechanism should be embedded in a framework of comprehensive prequalification of IMF members for financial assistance. This would strengthen the IMF surveillance role and help to address moral hazard concerns. The G-20 leaders also should agree to double the IMF's quota resources to support the Fund's enhanced emergency financing role. With respect to IMF governance, the G-20 leaders should agree to applaud the reduction in European representation on the IMF executive board and they should adopt a transparent approach to delivering on their prior commitment to redistribute 5 percentage points of IMF quota shares such as the one I have advanced.

Table 1 Illustrative revised IMF quota shares

	Post second-round quota	2008 Formula	Bryant formula	Average of the 2008 formula and Bryant formula	New quota share	Change in share (percentage points)	Movement toward Bryant formula share (percent)
Advanced countries	60.80	58.66	50.13	54.39	57.60	–3.20	30
United States	17.67	16.99	17.61	17.30	17.48	–0.19	301
Japan	6.56	6.49	6.12	6.30	6.43	–0.13	29
Germany	6.11	5.68	4.26	4.97	5.54	–0.57	31
France	4.50	3.79	3.07	3.43	3.97	–0.54	37
United Kingdom	4.50	4.66	3.51	4.09	4.30	–0.21	21
Italy	3.31	2.99	2.49	2.74	3.02	–0.28	35
Canada	2.67	2.30	1.81	2.06	2.36	–0.31	36
Other advanced countries	15.48	15.75	11.26	13.51	14.49	–0.99	23
Nonadvanced countries	39.20	41.34	49.87	45.61	42.40	3.20	30
China	4.00	7.92	9.62	8.77	6.38	2.39	42
Russia	2.49	2.94	2.77	2.86	2.67	0.18	65
India	2.44	2.40	4.49	3.45	2.94	0.50	25
Brazil	1.78	2.15	2.40	2.28	2.03	0.25	40
Mexico	1.52	1.79	1.74	1.77	1.64	0.12	55
Other nonadvanced countries	26.96	24.14	28.84	26.49	26.73	–0.24	–13
Memorandum items:							
European Union	31.87	31.34	23.63	27.49	29.68	–2.19	27
23 Dynamic emerging and developing countries	18.53	24.89	29.30	27.09	22.81	4.28	40
PRGT–eligible countries	4.27	2.58	7.35	4.97	4.62	0.35	11

Source: Bryant (2010) and author's calculations.

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