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Voting Share Reform at the IMF: Will it Make a Difference?

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For more than 20 years there have been efforts to reform the International Monetary Fund (IMF) through changing its voting structure. There are structural limits to both the success, in quantitative terms, of changing these limits; and to the impact of any changes that are won. Some of these will be discussed below. Ignoring these constraints for the moment, it should in principle be possible to give more voice to the majority of the world's governments, and by extension their people, by increasing voting shares of low- and middle-income countries; and in this way to possibly make IMF policy better reflect and serve the interests of the majority of the world's population, especially in low- and middle-income countries.

Figures 1 and 2 show the changes in voting shares that were proposed in 2010 and that have recently been made effective. The first thing to note is that the voting share of the United States did not change in the most recent re-allocation,[1] and remains at 16.73 percent.[2] As can be seen from the figures, this dwarfs all other member countries' voting shares, both before and after the latest changes.

1 For prior reallocations, see: Weisbrot, Mark and Jake Johnston. 2009. "IMF Voting Shares: No Plans for Significant Changes." Washington, DC: Center for Economic and Policy Research: http://cepr.net/publications/reports/imf-voting-shares-no-plans-for-significant-changes.

2 The U.S. share is expected to be reduced to 16.5 after full implementation of the reforms. Voting shares are being updated as countries pay their quotas, so some small changes are likely.

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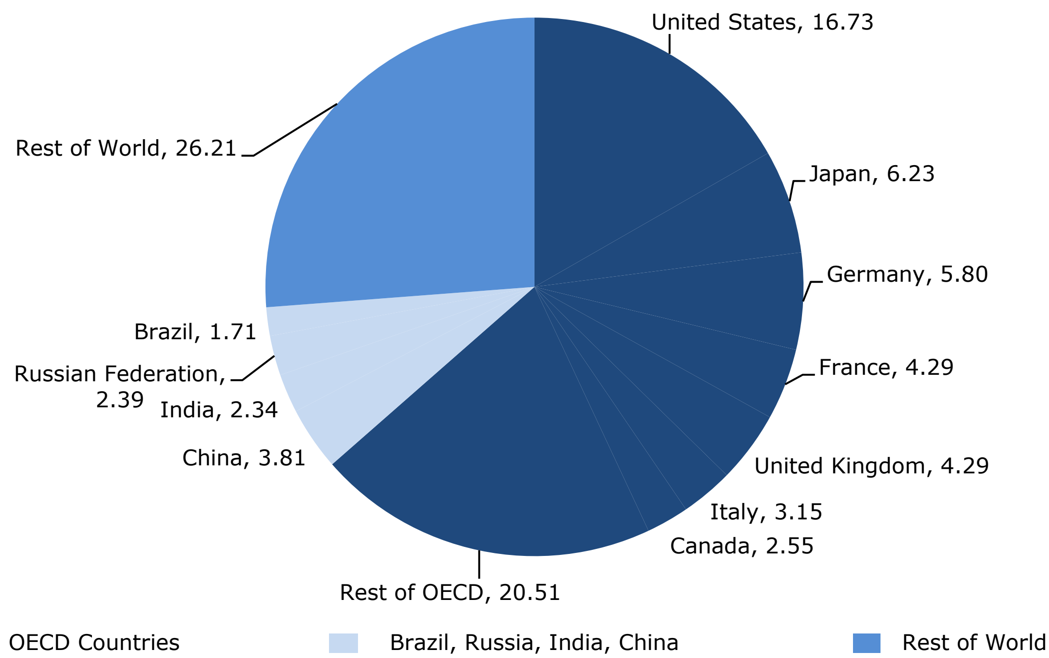
FIGURE 1

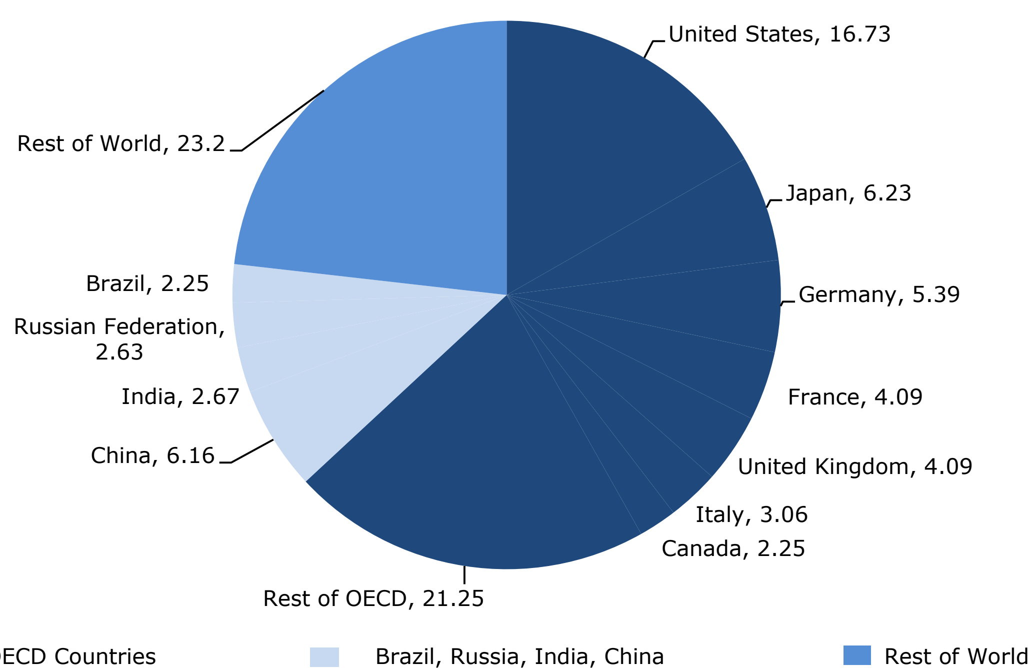
IMF Voting Shares Prior to Latest Reform



Source: International Monetary Fund (IMF). "IMF Members' Quotas and Voting Power, and IMF Board of Governors." http://www.imf.org/external/np/sec/memdir/members.aspx (accessed April 6, 2016). And IMF. 2010. "Illustration of Proposed Quota and Voting Shares." http://www.imf.org/external/np/sec/pr/2010/pdfs/pr10418_table.pdf.

FIGURE 2

Current IMF Voting Shares



Source: Ibid.

As can be seen in the figures above, OECD countries retain an overwhelming majority of the voting share within the IMF even after recent reforms. Further, outside of Brazil, Russia, India, and China, the rest of the developing world actually see their voting share decrease by three percentage points.

More importantly, the current voting share also retains the United States' veto over some important decisions, including changes to the IMF's charter, which require an 85 percent majority. Ironically, it was this veto that allowed the U.S. to block the most recent changes in voting shares, which were approved by almost everyone else in the IMF in 2010 but were held up by Republicans in the U.S. Congress for five years, until this past December. As the world economy continues to change, the same dynamic that delayed these past reforms is likely to delay or prevent further reforms in the future. The world economy has already changed quite significantly since the world financial crisis of 2008; the Chinese economy has grown by 76 percent, while Europe's growth has been about zero.[3]

In reality, the United States' power in the IMF is vastly greater than its charter-determined right to veto decisions that require an 85 percent majority. The IMF was created in 1944, as World War II was drawing to a close, and the U.S. was practically the only major industrial power in the world. Washington was able to put itself in charge of the Bretton Woods institutions (the IMF and World Bank), and although the European Union and China have both grown to have larger economies than that of the U.S., Washington remains the pre-eminent power within the IMF.

By an informal arrangement that is not part of any organizational charter or by-laws, the managing director of the IMF is always from Europe and the president of the World Bank is always from the United States. But even this is misleading, because the European in charge of the IMF does not mean that the Europeans' power within the Fund is commensurate with that of the U.S. — the European that is chosen must be acceptable to the U.S. Treasury department. This was made clear, for example, in 2000, when Germany nominated Caio Koch-Weser, a long-time World Bank official and then German deputy finance minister to head the IMF. The U.S. was opposed, and the nomination did not succeed.[4]

There have been increasing efforts — the strongest in 2012 — to put someone from the developing world in charge of the World Bank, since its primary mission is to promote economic development, but these have so far failed.

3 IMF. 2016. "World Economic Outlook Database April 2016." World Economic and Financial Surveys. https://www.imf.org/external/pubs/ft/weo/2016/01/weodata/index.aspx.

4 See Kahn, Joseph. March 3, 2000. "I.M.F. Directors Fail to Rally Around Any New Leader in Poll." The New York Times. http://www.nytimes.com/2000/03/03/business/imf-directors-fail-to-rally-around-any-new-leader-in-poll.html.

Within the IMF, the U.S. generally defers to Europe on important matters having to do with the European economy. This was not always true, but since the world financial crisis and recession, Europe has become the recipient of the vast majority of IMF loans. This is of course an enormous change in the IMF loan portfolio from the decades before 2009, when almost all of the Fund's lending went to low- and middle-income countries. Since 2010, the IMF has been part of "the troika," — the European Central Bank, the European Commission, and the Fund; or more recently, for example in the negotiations between the European authorities and Greece, the troika plus the eurogroup of finance ministers. But within these groupings, the IMF is a subordinate partner, and is directed primarily by its European directors.

Still, there are times when the U.S. uses its enormous influence within the IMF to challenge Europe even on its own turf. For example, the IMF refused to participate in the last bail-out loan for Greece. It also released a damning report arguing that the Greek debt was unsustainable, just before the June referendum in Greece on whether to accept the European authorities' current offer, in which the "No" vote prevailed by a large margin. And it is currently arguing with the other European authorities that Greece needs further debt relief, as well as a lower primary budget surplus than these creditors are demanding. Presumably these actions reflect some differing political interests: while the European authorities are seeking to transform Greece (and the eurozone) into a different type of economy, and also are looking to their own domestic politics (e.g., in Germany), the United States has been primarily concerned with keeping Greece within the euro — for geostrategic reasons, since Europe is Washington's most important political ally. The U.S. is less willing to risk the possibility that forcing Greece to maintain an unsustainable debt burden, limping along from one crisis to another without economic recovery, could eventually push the country out of the eurozone.

Outside of Europe, the major decision-maker is generally the United States Treasury Department. This means that Treasury is the main power for policy decisions affecting low- and middle-income borrowing countries, i.e., all borrowers outside of Europe. In practice, there is generally relatively little disagreement among the rich countries in these matters — the U.S. and Europe, the two biggest stakeholders — are allies. So allowing Washington to continue to be the main decider for non-European borrowers, as it has been since the IMF's inception, does not generally matter that much to the other high-income country governments. The executive board does not generally vote on these decisions, but rather reaches agreement by consensus.[5]

5 References and citations for information not referenced here can be found in Weisbrot, Mark. 2015. *Failed: What the Experts Got Wrong About the Global Economy*. New York: Oxford University Press, Chapters 2–4.

Table 1 shows why the current voting structure maintains the pattern of high-income-country dominance. It shows that the combined voting share of the OECD countries is more than 63 percent. The OECD countries are almost all high-income countries, and the few middle-income countries there (e.g., Mexico, Poland) can be expected to vote with the U.S. So this is the best way to look at the voting structure of the IMF, with regard to policy decisions that affect developing countries. Even after the latest voting share reforms, the U.S. and its allies have a comfortable and reliable majority for almost any IMF decision going forward. There is also a significant over-representation of these countries, compared to their share of the world economy,[6] as can be seen in the table. More data on over/under representation can be seen in **Table 2**.

TABLE 1

OECD Current Voting Share and Over-representation

	Current Voting Share	PPP Share World Economy
OECD Total	63.09	45.60

Source: IMF. "IMF Members' Quotas and Voting Power, and IMF Board of Governors."

The only really significant change in the most recent reform has been the voting share of China, which went from 3.81 to 6.16, an increase of 2.35 percentage points. While this is a big proportional change, and represents a doubling of China's share since 2006, it still leaves China with a very small vote as compared with its size in the world economy. On a purchasing-power-parity basis, it has 18.6 percent of the world economy, more than the United States; and of course it also has 4.3 times the population of the U.S. Yet the U.S. has more than 2.6 times China's voting share at the IMF.

TABLE 1

Most Underrepresented Countries by Share of World Economy

Country	Current Voting Share	PPP Share of World Economy
China	6.16	18.59
India	2.67	7.09
Indonesia	0.96	2.51
Brazil	2.25	2.84
Iran, Islamic Republic of	0.75	1.22
Nigeria	0.52	0.98
Russian Federation	2.63	3.07
Turkey	0.97	1.39
Argentina	0.46	0.85
United Arab Emirates	0.18	0.57

Source and notes: Ibid.

6 The share of the world economy is measured on a purchasing power parity (PPP) basis, which adjusts for differences in prices between countries.

Conclusion: Reforming the IMF

From the above, it is clear that the most recent changes in voting shares will have extremely little, if any, impact on IMF decision-making; and that more significant reforms are probably beyond the foreseeable future. In the discussions of the most recent reforms in the U.S. Congress and in the public, it was made clear that the U.S. must retain its power in the IMF, if Congress was to approve the reforms. The U.S. Treasury Department took pains to assure the Congress and the public that "After the IMF reforms are implemented, the U.S. will remain the IMF's largest shareholder and the only country in the world with veto authority over major decisions at the IMF" and that the reforms would "strengthen" the "structures in which the United States exercises its leadership position."[7]

But the way the IMF has operated, and currently operates, strongly indicate that we are not yet at the stage where changes in voting shares can make a difference. Currently, the non-OECD countries are not using the voice or vote that they already have within the IMF. Rather, they generally go along with decisions made by the U.S. and its allies. By contrast, in the World Trade Organization (WTO), which was formed in 1995, developing countries have challenged the rich countries on a number of important policy issues, including public health, drug patents and access to essential medicines, and agriculture and development policy. They have won a number of successes despite the fact that the rules were written by the high-income countries and their corporations, and are heavily biased against the needs of developing countries. While it is true that the WTO operates on a consensus basis rather than through voting shares, this is not the main difference between it and the IMF. The main difference is that the governments of low- and middle-income countries, sometimes joined by NGOs, have organized blocs within the WTO and fought repeatedly to defend their interests. There have been some similar efforts within the IMF, but nothing comparable to what has happened at the WTO.

Without a voice for the overwhelming majority of the world within the IMF, it is not surprising that many of the Fund's policy decisions are not in their interests. For example, a review of 41 countries with IMF agreements during the world recession of 2009 found that 31 of the agreements contained pro-cyclical fiscal policy, monetary policy, or both.[8]

7 Wyeth Earnest, Natalie. 2014 "Myth vs. Fact: Why IMF Quota and Governance Reforms are Urgently Needed." Treasury Notes (blog). U.S. Department of the Treasury. https://www.treasury.gov/connect/blog/Pages/Myth-vs-Fact-IMF-Quota-Reforms.aspx.

8 See Weisbrot, Mark, Rebecca Ray, Jake Johnston, José Antonio Cordero, and Juan Antonio Montecino. 2009. "IMF-Supported Macroeconomic Policies and the World Recession: A Look at Forty-One Borrowing Countries." Washington, DC: Center for Economic and Policy Research: http://cepr.net/publications/reports/imf-supported-macroeconomic-policies-and-the-world-recession.

In the 21st century, the IMF has lost most of its influence in middle-income countries. This was one the most important changes in the international financial system in decades, and it was partly because of the Fund's policy failures in the 1990s, including the Asian financial crisis, which convinced many middle-income countries to accumulate sufficient reserves so that they would never have to borrow from the IMF again. China has also become a large alternative source of lending, as well as foreign exchange through investment and foreign aid. These trends have begun to become institutionalized, with the creation of the BRICS Contingent Reserve Arrangement (CRA) and New Development Bank; as well as the Asian Infrastructure Investment Bank, in which 57 countries, including the U.K., France, Germany, and Italy (but not the U.S.) joined in its launch this year.

It thus seems likely that the IMF will continue to lose influence in developing countries as more alternative sources of funding become available, although the current problems in the world economy may slow that process temporarily. It remains to be seen how the role of the new institutions and bilateral lending will play out.

In recent years there have been significant changes in the research department of the IMF, which has published studies that acknowledge a possible positive role for capital controls in developing countries;[9] questioning whether central banks were targeting too low of an inflation rate;[10] and finding that the IMF had significantly underestimated the multipliers for fiscal policy. In a discussion in December, former IMF Chief Economist Olivier Blanchard said he hoped that these changes in IMF research had "moved the needle a bit" in terms of influencing policy. It was an understandably modest hope, and one that perhaps remains to be realized. Until there is a lot more reform at the IMF, however, the most likely path towards better policy in low- and middle-income countries will be the continuation of the Fund's loss of influence.

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9 See Cordero, José Antonio and Juan Antonio Montecino. 2010. "Capital Controls and Monetary Policy in Developing Countries." Washington, DC: Center for Economic and Policy Research: http://www.cepr.net/documents/publications/capital-controls-2010-04.pdf.

10 Blanchard, Olivier, Giovanni Dell'Ariccia, and Paolo Mauro. 2010. "Rethinking Macroeconomic Policy." International Monetary Fund Staff Position Note 10/03. https://www.imf.org/external/pubs/ft/spn/2010/spn1003.pdf.