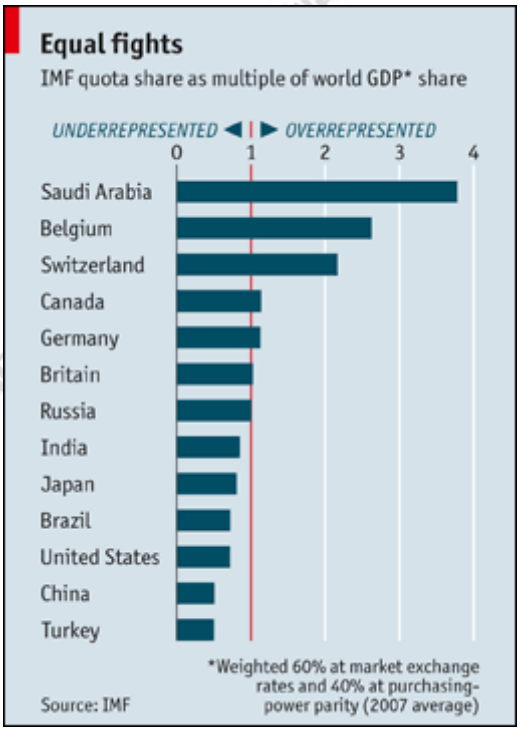
Cosmetic surgery?

The face of global economic governance is changing

Symbolism or substance? The G20 meeting in Pittsburgh secured the place of emerging markets at the top table of global economic policy. “Bretton Woods is being overhauled before our eyes,” declared Robert Zoellick, head of the World Bank. The G20 leaders agreed to shift voting power substantially within the IMF towards “dynamic emerging markets and developing countries”, and endorsed similar reform at the World Bank.

They also announced that the G20 itself will replace the G7, a rich-world club that will now concentrate mainly on security issues, as the primary forum for international economic co-operation. The Financial Stability Board, which is supposed to oversee the co-ordination of global financial regulation, has also expanded to include the G20’s emerging–market members. But how much clout the developing world will actually have remains unclear.

That global economic governance urgently needs to catch up with the growing heft of poorer countries is undisputed. Emerging markets grew almost three times as fast as rich countries between 2000 and 2007. But the largest and fastest-growing, such as China, remained woefully under-represented at the IMF (see chart). Hence the G20’s most concrete promise, that 5% of the IMF’s quotas (which determine countries’ share of the votes at the institution) will shift away from overrepresented rich countries. Coming on the back of another (not yet implemented) shift in quotas in April 2008, this promises to alter the balance of power within the fund quite substantially. The emerging economies, led by Brazil, Russia, India and China, had demanded a 7% shift, but they are likely to be content with 5%.



But reforming IMF quotas will necessarily involve a loss of power for some countries, many of which have far more influence in the fund than befits their share of the world economy. Proposals to streamline the IMF’s executive board by eliminating the seats held by some European countries led to predictable howls from Britain and France, which are likely losers from any such move. On September 29th Axel Weber, a member of the European Central Bank’s governing council, said that “Germany and EU countries must continue to be treated as fairly and justly as other IMF members.” Meanwhile the decision to make the G20 the locus of

discussions on economic affairs has upset smaller emerging markets such as Thailand and Chile, which are not part of the club.

Setting fairness aside, the main reason to reform the fund is the hope that countries will be more likely to heed the IMF's advice if it is more representative. The fund's previous attempt to get the big surplus and deficit countries together to deal with global economic imbalances, in 2006, was an abject failure. But even with reform, there is still a limit to what discussion can accomplish without a serious willingness on the part of member countries to act on unpalatable advice. When it comes to solving problems that require countries to alter their policies, argues Raghuram Rajan, a former IMF chief economist, "the fundamental question is, how much sovereignty are you willing to give up for the global economic good? The answer, right now, is zero."

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