



# World Economy & Development *in brief*

European Briefings on Globalisation, North-South Relations and International Ecology

## A Double Majority System for the IMF Shifting the debate over governance reform

The International Monetary Fund (IMF) has initiated a series of reforms that some say will act to dampen existing power discrepancies. However, the proposed reforms, if implemented as currently being discussed, will actually prove regressive for developing country interests. Bridging the democratic deficit therefore requires a fundamental shift in the debate over governance reform, write **Peter Chowla, Jeffrey Oatham and Claire Wren**.

Altering the quota formula using the proposals put forward by the US or EU and simultaneously trebling the basic vote would actually weaken the voting shares of developing countries. Yet reforms must empower those sidelined by the existing system and build in important checks to abuse of power. Some wish to see weighted voting replaced by a so-called Westphalian one-country, one-vote system, but such a sweeping proposition will never gain sufficient support to be implemented. Any reforms which are to be successful need to follow a more incremental approach and consider the political realities. Wealthy countries, which believe their economic strength should be represented in the way decisions are made in institutions governing global economic and monetary stability, are unlikely to allow their power to be strongly diminished. By accepting the political realities inherent in the relations between countries, incremental reforms can achieve more voice for developing countries without affecting quota allocation.

### \* Three possible outcomes

As the situation in the IMF currently stands, there are three possible outcomes. Firstly, the do-nothing option risks a further loss of confidence and disengagement by a number of member countries. The second option is to

reform the institution through the zero-sum game of quota reform, a divisive and potentially regressive process that has unlikely chances of success and is unlikely to achieve a significant change in power relations. Third, is to implement a double majority voting system. Only double majority has the chance of being accepted by middle- and low-income countries wanting more power and wealthier countries who do not want to lose too much power.

This concept of using multiple majorities is not new, and is already used by many decision making bodies to balance the views of different consistencies. We believe that a *state-weight double majority* system, that requires a majority of states to support decisions alongside the majority of weighted votes, can be used at the IMF to effectively balance the competing interests during the current stage of the institutional reform process. Such a *state-weight double majority*, balancing Westphalian and economic principles, would effectively enhance the voice of developing countries and improve consensus decision making at the Fund, while maintaining the opportunity for those who hold the majority of weighted votes to express their interests. While a *state-weight double majority* may not address all the problems challenging international institutions, such as the over-

arching issues of political economy in international relations, it provides an alternative starting point from which to launch further necessary reforms.

### **\*Balancing Westphalian and economic principles**

A *state-weight double majority* will increase developing country influence in decision making by creating a situation where they can build coalitions with like-minded states. The increased dialogue that this would generate between members and the incentives it will create to build consensus will result in more stable and effective decisions. The model proposed for the IMF is equally applicable to other international institutions that have a weighted voting system. Given the ability of multiple majority voting systems to better balance the interests of disparate members of an institution who have a common goal, in this case a stable global economy, and strengthen institutional legitimacy, a double majority voting system presents a tenable alternative for the IMF.

Implementing a qualified majority system that balances Westphalian principles of national sovereignty and equality of representation with the current system of economically weighted voting would neatly bridge some of the divides in the membership while avoiding some of the pitfalls with a creditor-debtor split. The rift between developed and developing economies is the biggest stumbling block in Fund legitimacy. The current system essentially works to privilege the interests of the large economies at the expense of the small ones. As the current membership of the Fund is made up of 30 members of the OECD and 154 non-OECD members, assigning each country an equal vote would significantly empower developing countries.

The immediate attraction of a *state-weight double majority* is that it would make the divisive debate about what variables to use in a revised quota formula less intractable and less important. While the current debate has been unhelpfully limited by the major shareholders

and the management of the Fund, enhancing the voice of low-income countries can come through empowering each country with an equal vote in one aspect of the institution's power structure instead of through a different constellation of percentages for various variables.

### **\* The dynamics of the double majority**

While some argue that a double majority proposal would not win sufficient support, we believe this judgement is premature. The dynamics of the double majority are significantly different from a move to reallocate quota more justly. Because reallocating quota is a zero-sum game, quota formula changes are deeply divisive. But adding an additional requirement for agreement would be less threatening to those that already hold power because their opportunity to look after their own interests based on economically determined voting weight, effectively the power to veto, would be maintained.

For example, normal decisions at the Executive Board of the Fund require a simple majority to be approved. Under the current system, non-OECD countries cannot block any proposal, as the OECD countries control nearly 70% of the votes at the board. In fact, if the Executive Directors (EDs) representing the G7 countries all agree to a proposal; they only need to attract the support of the Belgian ED to achieve a simple majority. These eight EDs, representing 35 countries, can unilaterally make decisions. To oppose normal decisions, developing country EDs would, at a minimum, need the support of either four developed country EDs or the US and one other developed country ED. A *state-weight double majority* on the other hand would allow the eight developing country EDs that lead constituencies to block a decision. This significantly lowers the barriers to successful coalition building.

At the Executive Board there are two possibilities for implementation of a double majority system; one based on the equality of directors and the other on the equality of

member countries. In the first, each ED would have an equal vote in terms of the second majority. If the thresholds for a decision were matched for both of the majorities, a decision that needed a simple majority would require support of directors accounting for more than 50% of the voting rights and would need to carry the support of 13 of the 24 directors to be approved. Similarly decisions requiring 70% of the voting weight would need approval by 17 directors.

#### \* **Preserving the equality of nations**

Treating each ED equally, however, would not conform to the notion of national equality. Instead, it would serve to continue valuing the opinion of certain members, particularly the five largest economies that automatically hold their own chairs on the board, above those of other countries that are part of constituencies.

The second option would be for the Directors to be accorded a number of votes equivalent to the number of members of their constituency. Thus the Executive Director for the Africa II group would cast 1.39% of the weighted votes but 13.19% of the state-based vote tally corresponding to 24 out of the 182 active members of the Fund. The five largest countries that hold their own chairs on the board would each count for only 1 vote, 0.55% of the state-based vote tally.

This system would preserve the equality of nations within the Fund, upholding the principle of parity of members, and do more to redress the unequal voice in decision making. Given that the 30 OECD countries hold up to 13 of the 24 chairs at the Executive Board at any one time, using the former system of weighting each chair's vote equally would not alleviate the perceptions of inequality in decision making nor enhance the legitimacy of Board decisions. It would also not increase the incentives for dialogue and coalition building much above the current arrangements for board decision making. Only if the large constituencies of developing countries hold more voting power would it counter-balance the marginalisation of holding fewer

shares in terms of economically weighted voting. The latter system of maintaining equal weight for each member nation would more effectively generate discourse between different interest groups and compromise.

#### \* **Consensus in the interim**

Implementing these changes to the voting system of the IMF would require amendments to the Articles of Agreement to be binding. However, amendments to the articles can take years. While an amendment is moving through the hurdles of the administrative process, the Executive Board should come to an understanding that its internal decision making processes would reflect the need for a double majority in the interim. The Board seeks to act by consensus and votes are rarely taken. Though we believe the taking and publication of votes is necessary to promote accountability, for purposes of discussion and the Managing Director's chairing of Board meetings, consensus should be defined as being achieved only when the double majority requirement is fulfilled. An understanding to work on the basis of a *state-weight double majority* can be put into operation before the amendments to the Articles are fully adopted if the proposal has good faith support from the EDs and the Managing Director.

The shortcomings in the IMF's governance extend beyond just decision rules and the quota formula. Attempts at reform, if they are to create an institution that is both effective and accountable, will have to address not just the voting rights of countries, but also the structure and procedures of the executive board, the transparency of decision making processes, the overburdening of quota with too many functions, and the method for the selection of the managing director. Comprehensive reform is the only way to capitalise on the synergies that can be created by equity, transparency and accountability.

*Peter Chowla, Jeffrey Oatham and Claire Wren* work with Bretton Woods Project and One World Trust in London. This article is based on their study, **Bridging the demo-**

**cratic deficit: Double majority decision making and the IMF** (16 pp. Bretton Woods Project/One World Trust: London, February 2007).

Posted: 1 March 2007

**Recommended citation:** Chowla, Peter, Oatham, Jeffrey, Wren, Claire (2007) 'A Double Majority System for the IMF. Shifting the debate over governance reform', *World Economy & Development In Brief*, Issue 2/Mar-Apr ([www.wdev.eu](http://www.wdev.eu))

**More on the subject:**

- \* How to deal with the IMF legitimacy crisis? WDEV Issue 3/Aug-Sep 2006
- \* How to reform the IMF? How much weight for Europe? WDEV Issue 1/Apr-May 2006
- \* The Reform of the International Monetary Fund (IMF). A Provisional Appraisal and Perspective on the International Debate, WDEV Background