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IMF Voting Shares: No Plans for Significant Changes

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The International Monetary Fund (IMF's) governance structure is much more reflective of the world of 1944, when it was established, than of the world today. Since 85 percent is needed in order to amend the IMF's charter, and for some other important decisions, the United States' 16.7 percent of voting shares gives it direct veto power over much important decision-making and potential reforms. More importantly, the United States together with other high-income countries has a solid majority. For the past 65 years, Europe and the rest of the high-income world have almost always voted with the United States within the Fund.

Thus, the high-income countries effectively run the organization, with the U.S. Treasury as the principal overseer (despite the fact that the managing director of the IMF is by tradition a European). Low and middle-income countries have almost no significant voice.

There have been efforts for many years to reform the governance structure of the IMF. These finally bore fruit in the Singapore reforms of 2006. **Figures 1** and **2** show the voting shares of the IMF before and after the Singapore reforms. As can be seen from the figures, after twelve years of efforts by reformers, the change is very slight. The United States share fell from 17 to 16.7 percent. China, which has the world's second largest economy and 1.3 billion people, went from 2.9 percent to 3.6 percent. South Korea and Singapore (combined) went from 1.2 percent to 1.7 percent. The rest of the changes were much smaller and basically insignificant. High Income countries went from 52.7 percent to 52.3 percent, maintaining their majority control over decision-making. On the other hand the BRIC (Brazil, Russia, India and China) countries plus Mexico went from 10.1 percent to 11.1 percent. The rest of the world (163 of 185 countries) dropped 0.5 percentage points from 37.1 percent to 36.6 percent.

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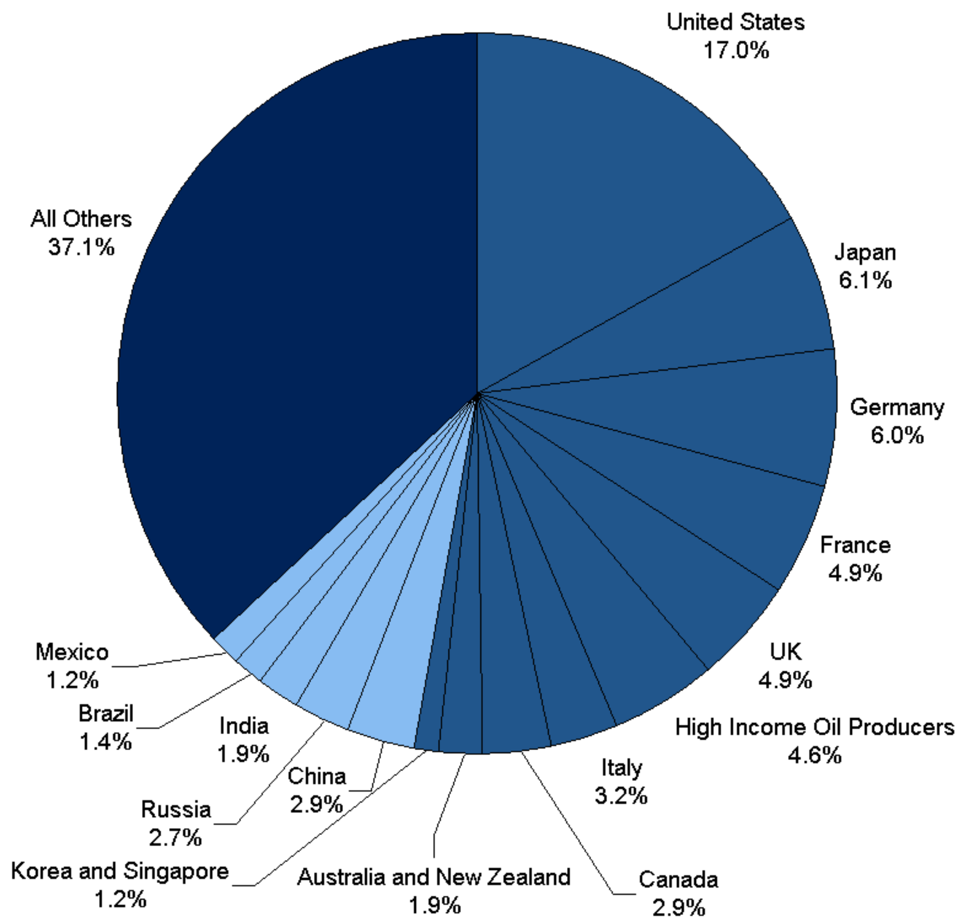
Figure 1
Pre-Singapore (2006) IMF Voting Shares



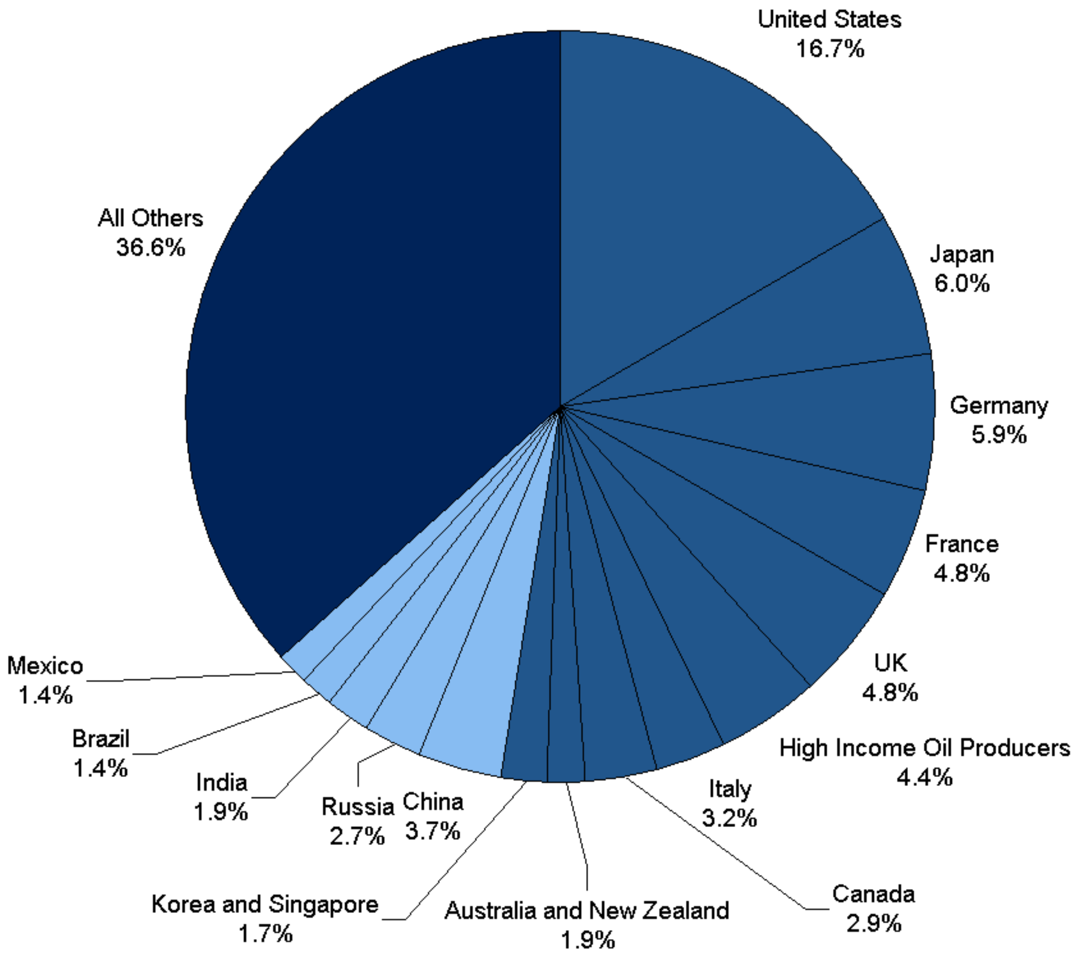
* High Income Oil Producers Includes: Saudi Arabia, Kuwait, United Arab Emirates, Qatar, Brunei and Bahrain.

- High Income Countries
- BRIC (Brazil, Russia, India China) Countries Plus Mexico
- All Other Countries (163)

Source: IMF, 2008. "Report of the Managing Director to the International Monetary and Financial Committee on IMF Quota and Voice Reform." <http://www.imf.org/external/pp/longres.aspx?id=4242>

A number of governments have raised objections to giving more money to the IMF without a change in its governance structure to assure some significant representation to countries other than the handful that currently control the Fund. At the G-20 meeting in London on April 2, the G-20 communiqué included a statement that was interpreted as saying that the head of the IMF will no longer have to be a European. However, without a significant change in the voting structure, it is not clear that this symbolic change will give developing countries any more voice or lead to any significant reforms or accountability at the Fund.

Figure 2
Post –Singapore (2006) IMF Voting Share Reforms



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High Income Countries
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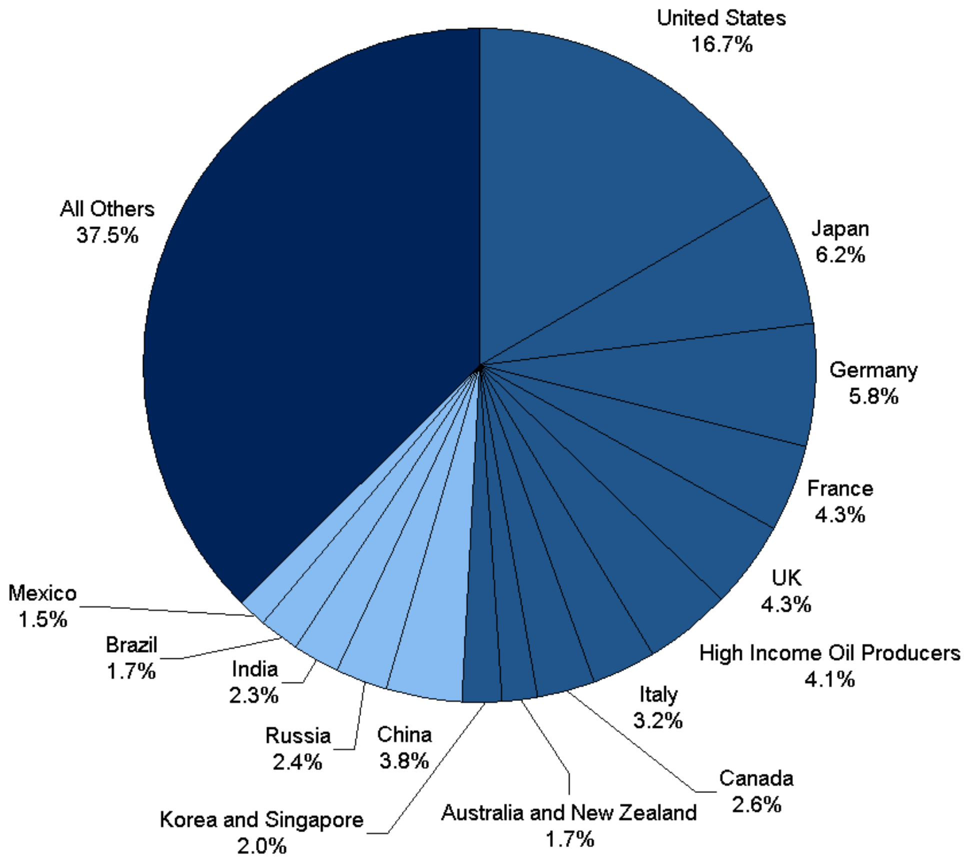
Source: IMF, 2008. "Report of the Managing Director to the International Monetary and Financial Committee on IMF Quota and Voice Reform." <http://www.imf.org/external/pp/longres.aspx?id=4242>

On April 25-26, 2009, the World Bank and IMF held their semi-annual Spring Meetings in Washington, and the question of governance reform became more prominent. During the Annual Meetings in Singapore in 2006, it was agreed that there was a need for further changes. Last year the Board of Governors of the IMF agreed on additional changes in voting shares, but these have not yet been implemented.

Figure 3
IMF Voting Shares After Reforms Currently Under Discussion



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High Income Countries
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Figure 3 shows voting shares for IMF member countries if the second round of reforms were to be implemented. As can be seen, the changes are again very slight. The United States keeps it's voting share of 16.7 percent. The group of high-income countries maintains its majority, with 50.9 percent – down 1.8 percentage points from present. This majority is more than enough to ensure their unchallenged control, since there will always be some low- and middle-income countries that join with the high-income countries, given the enormous disparities of wealth and power both inside and outside of the institution. The BRIC countries plus Mexico pick up just 0.6 percentage points, while the 163 remaining low- and middle-income countries pick up 0.9 percentage points.

Conclusion

It is clear that the proposed changes in the voting shares of the IMF will not significantly alter the balance of power within the organization. This could have adverse consequences for countries that borrow from the IMF, and are subject to its conditions. The Fund first encountered serious pressure for reform after its mishandling of the last set of major financial crises, which began in Asia and spread to Russia, Brazil, Argentina, and other countries.[1]

It is difficult to find evidence that Fund officials have been held accountable for any of the major mistakes that they made. Part of the reason may be that the governments who control the Fund do not have any compelling incentive to hold the Fund accountable for mistakes that negatively impact other, less well-off countries. In fact, the incentives are in the opposite direction: to do so could call attention to mismanagement of the Fund, with the risk that culpability could eventually be laid at the doorstep of the G-7 governments that are the decision-makers.

Most recently, nine agreements negotiated by the Fund since September of last year contain pro-cyclical conditions, despite the severity of the current world downturn; some of these conditions would appear to be inappropriate.[2]

The lack of governance reform could also have adverse consequences for the rest of the world, which might benefit from reform of the IMF. For example, the IMF publishes numerous working papers and research articles, conducts Article IV consultations with member countries, and twice annually publishes the World Economic Outlook, which includes economic forecasts and analysis of current and projected trends in the world economy.

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[1] For a review of these policy failures and their impact on the IMF and its relations with borrowing countries, see Weisbrot, Mark. (2007). "Ten Years After: The Lasting Impact of the Asian Financial Crisis," in *Ten Years After: Revisiting the Asian Financial Crisis*. Washington DC: Woodrow Wilson Center for International Scholars. p 105-118; see also, Weisbrot, Mark and Luis Sandoval. (2007). "Argentina's Economic Recovery: Policy Choices and Implications." Washington, DC: Center for Economic and Policy Research. Accessed online on April 20, 2009 <http://www.cepr.net/index.php/publications/reports/argentina-s-economic-recovery-policy-choices-and-implications/>

[2] Weisbrot, Mark, Jose Cordero and Luis Sandoval. (2009). "Empowering the IMF: Should Reform be a Requirement for Increasing the Fund's Resources?" Washington, DC: Center for Economic and Policy Research. Accessed online on May 5, 2009 <http://www.cepr.net/documents/publications/imf-reform-2009-04.pdf>

The IMF missed the two biggest asset bubbles in the history of the world – the U.S. stock market and housing bubbles -- despite the fact that these were quite obvious to economists who took the time to analyze them.[3] It has made other serious forecasting errors in specific countries and regions.[4] It is possible that the Fund's research and analysis would also show improvement if it were not controlled by such a narrow range of interests.

[3] Baker, Dean. (2002). "The Run-Up in Home Prices: Is It Real or Is It Another Bubble?" Washington, DC: Center for Economic and Policy Research. Accessed online on May 5, 2009 <http://www.cepr.net/documents/publications/housing_2002_08.pdf>and Baker, Dean. (1997). "Saving Social Security With Stocks: The Promises Don't Add Up." Washington, DC: The Century Foundation. Accessed online on May 5, 2009 < http://www.tcf.org/Publications/RetirementSecurity/savingSS97.pdf>

[4] See Weisbrot, Mark and David Rosnick. (2007). "Political Forecasting? The IMF's Flawed Growth Projections for Argentina and Venezuela." Washington, DC: Center for Economic and Policy Research. Accessed online on May 5, 2009 <http://www.cepr.net/documents/publications/imf_forecasting_2007_04.pdf >; Baker, Dean and David Rosnick. (2003). "Too Sunny In Latin America? The IMF's Overly Optimistic Growth Projections and Their Consequences." Washington, DC: Center for Economic and Policy Research. Accessed online on May 5, 2009 <http://www.cepr.net/documents/publications/imf_forecasting_2007_04.pdf> and Rosnick, David. (2009)." Troubled Assets: The IMF's Latest Projections for Economic Growth in the Western Hemisphere." Washington, DC: Center for Economic and Policy Research. Accessed online on May 5, 2009.