

## Double Majorities at the World Bank and IMF—for Legitimacy and Effectiveness

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Every crisis provides an opportunity. In the case of the still-oncoming global economic and jobs crisis, the opportunities facing the Obama administration include the chance to lead on fundamental reforms of the governance at the two major international financial institutions: the IMF and the World Bank.

In their current form—as Western-dominated trans-Atlantic clubs—these institutions lack legitimacy and are thus handicapped in meeting the urgent and complex needs of the 21<sup>st</sup> century. President Obama should be prepared to argue—including to the possibly recalcitrant U.S. Congress—that outmoded institutions work for nobody, not even the American people. To regain legitimacy, the IMF and the World Bank must become truly global cooperatives in which the developing nations have much greater representation than they have now. By leading this overdue governance reform effort, the United States can reclaim its role as champion of an open and inclusive global economic system.

Of course, the immediate response to the ongoing crisis must focus on maximizing the resources available from these and other multilateral institutions to help the developing world cope with the downturn. But raising and deploying increased resources effectively in the next 18 to 24 months will be much easier if there is agreement on far-reaching changes in governance before the fall annual meetings of the two institutions in Istanbul.

An initial step has been taken with U.S. Treasury Secretary Geithner's [statement](#) ahead of last weekend's meeting of the G-20 finance ministers. His call for a major increase in IMF resources (I argued earlier that the IMF and the multilateral banks can make at least [\\$1 trillion](#) available in the next two years, and Geithner's proposal would increase that amount further) was paired with [clear U.S. support](#) for increased developing-country representation in the two institutions.

In the face of the urgency of the G-20 April meeting agreeing on a coordinated fiscal stimulus and disincentives to protectionism, that may be enough on the governance front. Soon after the April 2 summit, Secretary Geithner should signal to the leadership of the two commissions on IMF and World Bank governance reform (led respectively by South African Minister of Finance [Trevor Manuel](#) and former President of Mexico [Ernesto Zedillo](#)) that the United States would welcome far-reaching but specific proposals.

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The two commissions should then propose double majority voting on selected issues, starting with a double majority requirement in future elections of the heads of the two institutions. By double majority voting I mean, simply, that both a majority of weighted votes (that is, votes according to country's shares—the current approach) and a majority of countries (an innovation for both of these institutions), would be needed for a decision.

As I [argued](#) almost one year ago, double majority voting would protect the interests of the major creditors (United States, Europe, etc.), who hold more shares, while at the same time rendering the decision-making process more inclusive—for the small and poor as well as the rising emerging-market economies, whose share-holding in these institutions lags their growing economic clout.

Requiring that key decisions win a majority of country votes would give developing countries for the first time the means to block major changes that they as a group are unwilling to support. Perhaps more importantly, it opens the possibility for coalition building which would foster the engagement and cooperative spirit that are required if the two financial institutions are to become more effective as well as more legitimate. Here's the way Bretton Woods Non-Commission member Ngaire Woods explained it in her 2006 book, [The Globalizers](#):

If a majority of voting power and a majority of countries in each organization are required to pass measures, the G-7 would need to find not just one further executive director's vote but also the support of half the membership. This reform would immediately create support for the powerful members of the board to forge alliances with a larger number of borrowing countries—large and small. (p. 210)

Of course requiring double majorities on too many issues and decisions could hamstring an institution. Not all decisions should be subject to special majorities. A double majority requirement for election of new heads is the right place to start: it would signal that the United States is finally ceding its lock on choosing the next president of the World Bank, and that the major Western European countries are relinquishing their power of choosing the next managing director of the IMF. These powers would be acting in their own interests in shoring up the legitimacy and relevance of the two global institutions in a global market economy at risk—not only today with the current crisis, but tomorrow, when they will surely face gradually waning influence and power in a changing geopolitical landscape.

This is not pie-in-the sky. Double majority voting for elections of new presidents is the rule now at three of the regional multilateral banks.

- At the Inter-American Development Bank, election of a new president requires a majority of the weighted votes of the regional members (so the United States can effectively block candidates it opposes) and a majority of the countries in the region. The latter means for practical purposes that various coalitions of Caribbean and Central American members are needed for a decision to go ahead.)
- At the Asian Development Bank, the same double majority allows developing country members to block any candidate. (Japan and the U.S. have a majority of the weighted votes and the elected heads in practice have always been Japanese.)

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- At the African Development Bank, the winning candidate must be supported by a majority of the regional voting power in addition to a majority of total voting power. This means that the head of the bank is likely to be an African.

For the World Bank and the IMF, of course, double majority voting would represent a significant change. The selection of the World Bank president is currently controlled by the United States, while the big European powers call the shots for the managing director of the IMF. This is increasingly an anomaly in the face of growing calls for an open, transparent, and meritocratic process. Shifting to double majority voting would provide a strong signal of the readiness of the trans-Atlantic powers to recognize they can no longer manage the global economy alone.

The two commissions can achieve a lot by endorsing a double majority election requirement. The measure is simple and transparent, and backing it would bring high-level political attention and energy into what for the past two years has been an incredibly arcane discussion of vote and share or quota adjustments—as [Ralph Bryant explains](#) for the IMF—with embarrassingly little in the way of serious proposals.

In protracted and tiresome negotiations, the boards of the two institutions have endorsed minor increases in representation of developing countries—what some have called a “mouse” in the case of the IMF. The IMF package would require Congressional approval given the effective U.S. veto on changes in quota “shares,” and I along with others have argued it might be better to [improve the package](#) before taking it to the Congress.

At the World Bank, proposed changes in total weighted voting power of the developing countries associated with the recent decision to double the “basic votes”—that is the number of votes every member country has qua member—would raise the total share of voting power for developing and transitional economies from 42.6 percent to just 43.8 percent. At the IMF, a proposed *tripling* of basic votes (as proposed last spring) would increase developing country votes from 32.3 percent to 34.4 percent. These “reforms” are making decision-making more inclusive and legitimate. Of course governance is not all about votes; voice also matters. But the planned increases (of one new chair for Africa at the World Bank, for example) are also modest increases. The bottom line is that the “reforms” now on the table are not going to change the dynamic of decision-making.

The Europeans understand double majority voting, which they employ in the EU itself. Americans can understand double majority voting in the context of the bicameral legislative arrangement, in which the composition of the Senate (where small states as well as large ones have two members) protects interests of the smaller states. Indeed, in a September 2007 [Wall Street Journal op-ed](#) published shortly before he was named as the new head of the IMF, Dominique Strauss-Kahn (a Frenchman and the agreed-upon “European” candidate) argued in favor of “greater voice and more effective representation” in the governance of the Fund.

I believe the dynamic of decision making has to be changed in order to decisively increase the input of developing and emerging economies. To achieve that, new voting rules may be worth considering. For example, for a handful of crucial decisions, a double majority of quotas and countries could be required, thus ensuring that those decisions

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affecting key aspects of the institution command unquestionable support. A system of double majority voting would entail two sets of criteria for assessing a majority, for example possibly using the existing "quotas"—the IMF votes weighted by size of the economy—as well as a single vote per country.

I rather doubt that Strauss-Khan has changed his mind since taking office. More likely, he feels constrained by his current position (after all, he reports to a board that has been constituted according to the rules he would seek to change). This suggests that an Obama push for global governance reform would likely find a potential ally in the top management of the fund. The World Bank, of course, is headed by an American, Robert Zoellick, who can presumably also be counted upon to follow Obama's lead.

In a global economy facing desperate needs for global cooperation on multiple issues, the world needs legitimate and representative global financial institutions. Yet the two leading global financial institutions—and their policies and practices—are viewed with suspicion and misgiving by many development advocates across the world, and in some developing countries by officialdom, too. Witness, for example, Asian countries' moves to self-insure against shocks through regional cooperation agreements rather than through the IMF, and the reluctance of other countries to turn to the IMF for help, except as a desperate last resort.

Double majority voting can fix this. The United States should signal to the two governance reform commissions that it is looking forward to supporting such proposals.