REFORMING THE IMF'S WEIGHTED VOTING SYSTEM

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The International Monetary Fund has long been a prominent institutional site of disagreement between rich and poor countries over how national preferences are to be aggregated for purposes of arriving at and implementing collective decisions. At the core of this disagreement is a fundamental problem that is both theoretical and practical: how best to reconcile the principle of sovereign equality with the fact of wide power asymmetries among members. More powerful states who contribute the bulk of the IMF's resources have successfully insisted that the Fund's weighted voting system reflect their position in the international power hierarchy, while their less powerful counterparts who use those resources call for votes to be distributed in closer accordance with the juridical equality of states, rich and poor, large and small. This more abstract debate spills over into disputes over how the actual distribution of votes has evolved, with developing countries recurrently expressing their dissatisfaction with voting weights they view as too small – individually and collectively – to permit meaningful participation in the IMF's internal governance. These differences over the IMF's decision process translate into divergent preferences between more and less developed countries on particular policy issues, such as the amount of IMF resources, the role and content of IMF conditionality, and use of Special Drawing Rights (SDRs). Less developed countries perceive that these issues are too often decided contrary to their interests. These disputes combine with other highly visible aspects of IMF internal governance and operations – e.g., the fact that the position of IMF Executive Director has always been reserved for a European, U.S. possession of a formal veto over important categories of IMF decisions, problems with the way developing country are represented on the Fund's Executive Board – to foster perceptions of systematic unfairness.

These perceptions, in turn, have undermined both the legitimacy and the effectiveness of this important international financial institution. Governments are less likely to regard as legitimate or to implement effectively decisions and policies which consequentially affect their welfare and security, but over which they have little or no say, and therefore no sense of "ownership."[1] Moreover, the IMF relies on the provision of quality information – both technical and culturally specific – from borrowing countries for purposes of surveillance, design of substantive programs and, not least, prevention and management of international financial crises. The latter is a systemic problem which, especially since the East Asian financial crisis, has obvious implications for creditors as well as borrowers. The fundamental point is that it has become much more difficult to correct global imbalances without the involvement of at least the major developing countries. Adjustments to various disequilibria no longer can be carried out effectively and legitimately without wider-than-G7 participation. Lest the question of legitimacy seem an abstract or purely normative concern, consider that East Asian dissatisfaction with the IMF's role in the region's 1997-98 financial crisis has spurred interest among Asian countries – which have huge current account surpluses and foreign currency reserves – in creating regional financial institutions. This interest was first manifest in the form of Japan's ill-fated 1997 Asian Monetary Fund proposal and since in a series of bilateral currency swaps that could coalesce into a stronger form of multilateral cooperation and eventually undermine or partly supplant the IMF (Wolf, 2004; Rapkin and Strand, 2003).

Implicated in all of the disputes described above is the IMF's method of determining members' quotas, which are the amount of financial resources that each country provides to the

[1] For an extended argument regarding how and why developing country representation is important to the legitimacy and effectiveness of international financial institutions, see Birdsall (2003).

Fund. Quotas serve several functions that are essential to IMF operations and that shape the terms under which each member participates in the organization: reflect members' abilities to contribute to the Fund's operations; determine the amount of resources that member countries can draw from the IMF; translate almost directly into each member's voting weight, in effect its political voice in the IMF's weighted voting system, and; determine the allocation of SDRs. Always regarded as problematic in some quarters, the Fund's quota-determination methods have been the target of increasing criticism and calls for reform in recent years. Critics tend to be either countries that have grown rapidly and believe their relative importance in the world economy is not reflected in their quota allocation or smaller, poorer members who feel their miniscule quotas preclude effective voice in the Fund.

The quota-determination and voting regime is a rather complex "can of worms" that, once opened, leads to consideration of more and more issues and procedures. The next section – which describes IMF decision rules, including the methods by which the Fund determines quotas and voting weights according to countries' relative position in the world economy – provides some context necessary for considering different reform proposals. We find that in the aggregate, though the quotas and voting shares of the vast majority remain diminutive by any reckoning, developing countries are *over*- rather than *under*-represented if we restrict our focus to variables and procedures similar to those used by the IMF – an admittedly arbitrary and, we think, ultimately unsatisfactory benchmark. This situation has resulted from well-meaning, but ultimately ineffective, efforts by the IMF over the decades to bend its procedures in order to provide a more meaningful and effective voice to developing countries. At the same time, it is also clear that 1) the quotas of many East Asian countries have not kept pace with their growing economic importance, with the result that they are substantially under-represented (Rapkin and

Strand, 2003), and; 2) over-representation of the smaller EU countries is an artifact of the inflated counting of intra-EU trade, and also stems from the inordinate presence of EU countries on the IMF's Executive Board.

The remainder of the paper surveys various reform proposals, most having to do with the IMF's quota determination and voting regime, and each addressing a problem highlighted by the earlier discussion of how this regime operates.[2] We compare existing quota distributions with two proposed alternatives – one developed by the IMF's external Quota Formula Review Group (QFRG) and another offered by former Executive Director Vijay Kelkar. These present quite different visions of how voting weight should be distributed: the former would increase the extent to which voting weights are directly proportionate to economic size and power, while the latter seeks a more egalitarian distribution that gives greater importance to the sovereign equality of states and to population size. We conclude that the problems of developing country representation are not likely to be fixed by either reallocating quotas on the margins of the existing IMF system or by tinkering with the quota-determination formulas. Rather, more fundamental institutional adjustments will be required. As the World Bank (2003: 1) acknowledges in the context of its joint reform efforts with the IMF, "no single change is going to address adequately the voice issue," which will instead require a "more comprehensive effort."

The most significant reform we recommend involves adoption of what O'Neill and Peleg (2000) call "count and account": a double majority voting system in which passage of a

[2] There are a large number of reform proposals aimed at important aspects of the Fund's operations that our present focus does not permit us to address, *inter alia*, the adequacy of IMF resources and their relationship to levels of world output and trade (see Buira 2003a: 21-2), relations with NGOs, how to retrofit the EU into the IMF quota/voting regime, conditionality and, more generally, the substantive content of IMF policies.

resolution requires support by a majority of both states and weighted votes. Double majority voting would reconcile the principle of the juridical equality of states with the need to take strong account of the prevailing hierarchy of economic power, and would also simplify other problematic aspects of the quota determination and voting processes.

QUOTAS, VOTING WEIGHTS AND GOVERNANCE OF THE FUND

How do international institutions comprised of sovereign states arrive at decisions concerning what actions to undertake and how to implement them? By what rules are these decisions taken? Institutions that differ in membership and function have developed decision rules that vary in terms of whether decisions are binding upon members; whether votes are weighted according to national strength, size, or some other criteria, and; the type of majority required – simple, special (or qualified), consensus or unanimity.[3] The case of the IMF, "involves procedures for the taking of decisions that are legally binding on all members without requiring their unanimous concurrence" (Lister, 1984: 11). These procedures are based on weighted voting and extensive use of special majorities.[4]

From the outset it was recognized that because the IMF was to marshal and dispense large amounts of scarce financial resources, its decisions would have to be legally binding rather

[3] For useful discussions of weighted voting, special majorities, and representation on executive boards as problems that explicitly recognize the inequality of states, see Zamora (1980: 588-599), McIntyre (1954), and Newcombe, et al. (1971). For analysis of how different weighting formulas would translate into *voting power*, i.e., the ability to influence electoral outcomes, in the IMF see Leech (2002) and Dreyer and Schotter (1980).

[4] Note that the World Bank's mechanism for determining capital subscriptions (analogous to IMF quotas) derives directly from the IMF's procedures; the results are almost identical.

than merely recommendatory. Some form of weighted voting was also perceived to be necessary since, "it was inconceivable that national legislatures appropriating funds for such transactions would not insist upon having in their disposition a voting-power closely related to the size of their contributions" (Lister, 1984: 37). Decision methods based on Westphalian conceptions of sovereign equality, in the extreme a one-country, one-vote rule, would not be acceptable to the major powers contributing the bulk of the IMF's resources. Accordingly, a scheme was devised by which each national member of the IMF has a quota (now expressed in Special Drawing Rights, or SDRs) that equates almost directly to its financial contribution to the organization.[5]

Quotas, which are intended to reflect a member country's ability to contribute to the Fund's operations, also determine its voting weight and its representation in the Fund's Executive Board. Each member has 250 "basic votes," plus one additional vote for every 100,000 SDR of its quota. Originally, "[t]he basic votes were to serve the function of recognizing the doctrine of the equality of states. In addition, they were intended to avoid too close an adherence to the concept of a private business corporation. The basic votes were intended to perform yet another, although somewhat associated function," to prevent a situation in which, "some members might have quotas so small that they would have virtually no sense of participation in the affairs of the Fund" (Gold, 1972a: 18-19). Unlike the Asian Development Bank, where a set proportion of basic votes (20 percent) are allocated equally among member states, basic votes in the IMF have not increased proportionally with increases in quota-based

[5] While the use of weighted voting highlights the power differential between developed and developing states, it is viewed by some (e.g., Gianaris, 1990) as enabling the Fund to be more effective. Officer (1990: 30) also defends weighted votes, arguing that, "[I]t puts nominal power (within the organization) where real power (outside of the organization) resides, giving the economically large countries a strong incentive to work within, or at least with, the IMF rather than outside it or against it…[hence] the IMF is prone to action rather than inaction."

votes. Hence, in recent years basic votes amounted to an all-time low of between two and three percent of the total votes, down from the original 11.3 percent agreed on in 1944 at Bretton Woods and from the historic high in 1958 of 15.6 percent. This trend away from recognition of the sovereign equality of states has significantly diminished developing country influence in the Fund.

Additional formal functions served by quotas include setting the extent of members' access to the IMF's financial resources and their share in the allocation of SDRs. Also, quotas are reflected in members' representation on the IMF staff. There is no *rule* linking quotas and staff but an informal convention gradually has evolved to the effect that "staff representation should roughly match quota share" (Kahler, 1990: 97). Even this standard is not met, as "the United States, the English speaking industrial countries and the industrialized countries more generally are heavily over-represented on the staff" (Evans and Finnemore, 2001: 23). For example, 47 percent of department heads at the Fund are from English-speaking industrial countries, while approximately 20 percent are from developing countries.[6]

The relative size of the quotas are derived from, but not strictly determined by, a complex system of five weighted formulas (down from a high of ten) based on GDP, the values and variability of receipts (exports), payments (imports), and reserves. The formulas have evolved

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[6] See Lahti (2000) for these and other indicators of the degree of diversification of the IMF's staff. Another, more controversial and visible personnel practice that disadvantages developing countries is that their citizens are not eligible for the Fund's top leadership position, Managing Director. By informal convention – which Kahler terms the nationality principle – the IMF's Managing Director has always been a European (and the World Bank presidency always goes to an American). Moreover, while there is an argument to be made that the Managing Director, in order to deal more forcefully with financial crises, should be from a creditor country, the nationality principle prevents developing countries from voting for other candidates, say from Japan or the United States, who they deem to be best qualified.

considerably from the single formula decided on at the Bretton Woods Conference, but no clear, persuasive rationale has ever been provided for the set of variables included (and excluded), the weights assigned to them, or the distributive outcomes thereby produced.[7] Moreover, however appropriate these variables might have been in the early years of the IMF, today, it is claimed, they are biased against developing countries insofar as they do not accurately reflect their contributions to world output and trade (in ways we describe below).

One reason it is difficult to discern a clear rationale is that a single quota measure is supposed to accomplish multiple objectives: ability to contribute (GDP, reserves), access to resources according to need and vulnerability (as indicated by variability of export receipts), and voting weights as reflective of relative importance in the world economy (GDP). There is no *a priori* specification, however, about the relative importance of the different functions of quotas. This "assignment problem" runs afoul of the long-established principle in the economic policy literature that the number of policy objectives should not exceed the number of independent policy instruments needed to reach them (Tinbergen, 1952). Note that quotas and corresponding voting shares are not mechanically determined by feeding economic data into the system of formulas. *Actual* quotas are instead arrived at through negotiations, which are based on the *calculated* quotas that emerge from the set of formulas. Lister (1984: 76) underscores the inherently political character

[7] As described by Raymond Mikesell (1994), the "institutional designer" of the original Bretton Woods quota formula, the IMF's quota-determination methods sprung from something other than an immaculate, or even technically rational, conception: he was given a desired political outcome – a specific quota distribution among the U.S., UK, the Soviet Union, and China – and instructed by U.S. Treasury officials to build a formula that would yield this result. In light of these thoroughly politicized origins of the IMF's quota-determination formulas, it is highly improbable that the same formulas could have since evolved so as to to become an objective, rational and fair standard.

of this process by pointing out that, in principle, "without any change of indicators, it would be easy, by small changes in weights, formulas and relationships between basic and weighted votes, to reflect any desired balance of influence among member states."[8]

General Quota Reviews (GQR) are undertaken about every five years, with the primary purpose of adjusting to changes in members' relative positions in the world economy, as well as accommodating entry of new members, and making various ad hoc adjustments, for example, to count Hong Kong's economic weight toward China's quota.[9] Changes in the distribution of quotas are easier to accomplish politically when a GQR is lubricated by a sizeable aggregate increase in the IMF quotas.[10] It is here that the calculated quotas generated by the formulas, and the follow-on negotiations that yield the actual quotas, come into play. Each quota increase is divided at the discretion of the IMF's Executive Board into *equiproportional* and *selective* components. The former simply extend proportionally the existing quotas and voting weights, while the latter tend to shift the new quotas toward the calculated quotas (though this can be done in different ways). Historically, the equiproportional component has ranged from 40 to 98 percent and averaged 70 percent, levels that have imparted a definite status quo bias to the overall process.

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[8] Einhorn (in Nye et al., 2003: 71) provides a "flavor for the politics" involved in negotiating a recent selective capital increase in the World Bank: "The negotiations were protracted and difficult… because of the sensitivity of many countries to their *relative* standing…. Italy, for example, was egregiously underrepresented but the politics were insurmountable because Italy shares a precise voting level with a number of other countries, each of which is exceeded by China by 1 vote. Take the apple out of the heap and watch the pile spill to the floor!"

[9] Ad hoc adjustments can also be made outside the context of the formal quota review process. For a summary review of ad hoc increases, see Quota Formula Review Group (2000: 29, Table 5).

[10] If there is no capital increase, as most recently in the 12th GQR, a redistribution of quotas is not undertaken.

To illustrate how much political discretion is involved, consider that the 8th GQR in 1983 allocated 40 percent of the overall increase on an equiproportional basis and 60 percent on the basis of newly calculated quotas. The 9th GQR completed in 1990 reversed these percentages, while also including a special adjustment involving "a restructuring of quota shares among the Group of Seven industrial nations, *using essentially an ad hoc method*, though generally in the direction of their respective shares in calculated quotas" (Roncevalles and Tweedie, 1991: 29).[11] These ad hoc adjustments resulted in Japan surpassing France and Great Britain to attain, with Germany, the second largest quota. The 11th GQR, completed in early 1998, was accompanied by a 45 percent augmentation of the IMF's capital, a significant, though not historically extraordinary, increase that was deemed necessary to cope with the emerging East Asian financial crisis. Of this increase, 75 percent was distributed on equiproportional basis, thus ensuring a large measure of inertia; within the 25 percent allocated to the selective component, 15 percent was applied to adjustment of all members' relative positions, and 10 percent to correct the position of some members whose calculated quotas were higher than their actual quotas. The most recent, 12th GQR concluded with no increase in quotas.

The voting weights derived from quotas have particular importance when considered in the context of the special majorities stipulated by the IMF's Articles of Agreement. There are over fifty categories of decision that require special majorities, most of which are decisions that stand to

[11] Also consider the statement by Jha and Saggar (2000: 585) that "It is hard to escape the impression that the quota formulas are essentially arbitrary and may be related only weakly to the relative economic size of members, which the IMF professes to be an important basis for quota allocations." More generally, Gold (1996: xxviii) contends that "the numbers reached after complex negotiations are not unaffected by political considerations, such as the unwillingness of a member to rank below some other particular member."

engage the political or economic interests of major states.[12] Decisions involving matters of policy and operations typically call for majorities of 70 or 85 percent, while more routine, procedural or "housekeeping" matters are decided on the basis of simple majorities. The Fund "has increasingly imposed a special-majority requirement on decisions which are of a novel or controversial character, which are likely to have far-reaching repercussions, or which involve the power to vary, amplify, modify or otherwise adapt one of the organizations' basic rules" (Lister, 1984: 113). Notably, eighteen categories of decisions, including decisions entailing constitutional revisions or changes in quotas (and thereby also voting shares), must gain an 85 percent majority. This provision means that the United States, with a voting share of over 17 percent, retains the only single-country veto over major IMF decisions, including any decision that would reduce its voting power and increase or decrease that of other countries.[13] Even if this veto is rarely used in a formal vote, it

[12] On the evolution of special majorities in the IMF, see Lister (1984: chapter 4.) Note that special majorities are not simply a device for safeguarding developed country interests. The 1978 Second Amendment of the IMF's Articles of Agreement specification of 70 or 85 percent special majorities for a wider variety of decisions was partly, "a response to developing country pressure for at least a veto power over decisions taken by the developed country majority" (Zamora, 1980: 596).

[13] The largest special majority was 80 percent until increased to 85 percent in 1969. The increase, which was effected at the insistence of the six original members of the EEC in order to provide them with a collective veto, also had the delayed effect of preserving the U.S. veto after its voting share fell below 20 percent in the 1990 quota review. As Kahler (1990: 96) points out, the relative importance, especially to the United States, of weighted voting and special majorities has shifted over time: "In the early years, given the relative share of the American quota, weighted voting was most important to American influence within the organization. As the relative weight of the United States in the world economy declined, and with it the American quota share within the IMF, special majorities grew in significance."

provides the U.S. with significant power, especially with regard to setting the IMF's agenda. As Cameron (2000: 9) argues in another context (the veto power of the U.S. President), "…Congress will anticipate vetoes and modify the content of legislation to head them off. The veto power will have shaped the content of legislation without actually being used. Veto threats play an important role in this process." So too does the U.S. veto shape outcomes without being explicitly exercised in the IMF, where, "member countries will usually not submit issues which are likely to be vetoed by the U.S…." (Kelkar et al., 2004: 730). Ascher's (1992: 124) observations regarding the World Bank apply as well to the Fund: "Any signal of displeasure by the U.S. executive director has an almost palpable impact on the Bank leadership and staff, whether the signal is an explicit complaint or simply the executive director's request for information on a problem."

While the U.S. is uniquely privileged in this respect, high special majority requirements also have more egalitarian implications in so far as many potential blocking coalitions consisting of developing countries can be formed. The steep 85 percent requirement exacts an institutional price, however, by making it more difficult to pass initiatives, thus diminishing the Fund's "capacity to act"[14] The tradeoff for the U.S. is that while its veto power enables the United States to block measures it opposes, the 85 percent special majority — by making it easier for other coalitions of smaller members to block proposals — can also have the effect of making it more difficult for the United States to push through measures that it favors.

Two bodies, the Board of Governors and the Executive Board, conduct decision-making in the Fund. The Board of Governors, comprised of a representative from each member, is vested with *de jure* decision-making power over many issues of major consequence, including the admission of new members, adjustments in quotas and constitutional changes. An important

[14] For an empirical demonstration of this effect, see Leech (2002).

limitation on the Board of Governors is that it only meets once or twice a year, at which time it considers recommendations generated by the Executive Board (which meets in continuous session). These arrangements have resulted in the delegation of authority by the largely ceremonial Board of Governors to what in practice is the primary decision-making body, the Executive Board.

The Executive Board is comprised of an Executive Director (ED) from each of the five largest shareholders, one each from Saudi Arabia, Russia and China, and sixteen others that represent voting groups (or constituencies), originally formed largely on a geographical basis, though now there are six groups comprised of both developed and developing country members.[15] Notably, none of these six mixed constituencies have an ED from a developing country. For the eight members that have their own ED, he or she casts that member's share of votes. Members of the other voting groups vote by simple majority for the ED that represents them. On substantive matters, EDs representing the voting groups cast the combined, undivided votes of their constituent members, usually after consultations.[16] The elected EDs generally are the members with the largest voting weights within their respective voting groups. For example, the voting group represented by Canada (63,942 votes) is comprised of 11 other countries with a combined total of 16,694 votes. Therefore, Canada effectively dictates who represents the group

[15] Formally, as per the Fund's Articles of Agreement, Saudi Arabia, Russia, and the PRC do not have appointed seats like the U.S., Japan, Germany, the UK, and France. Their seats are formally "elected," in a manner of speaking, like EDs from the voting groups, but these three represent voting groups consisting of one member, themselves.

[16] The IMF's Articles of Agreement do not actually use the term "representative" to describe the EDs, even those elected by and acting for voting groups. Fund staffers are also careful to avoid using "representative" in reference to the elected EDs.

and usually elects itself to the position. Australia has almost always been the representative for its voting group even though a coalition of other members could outvote it in the election of an executive director. In short, the members with the most votes control voting groups; countries not elected as a group's representative, "can at best express a divergent opinion orally but cannot bring it to bear in the form of a vote" (Gerster, 1993: 124).

The composition of the Executive Board presents a mixed picture of developing country representation. Presently, there are only two EDs from sub-Saharan African countries, two from Latin America, two from North America, three from the Middle East, five from Asia, and a grossly inordinate eight or nine from Western Europe. The fact that ten of twenty-four EDs are from developing countries suggests a reasonable degree of participation and influence opportunities, but the ten voting groups they represent total 97 member countries that command only a combined 25.78 percent of the total votes. If China and Saudi Arabia, each of which has its own ED, are excluded, the remaining 95 developing countries with 19.6 percent of the votes are represented by eight EDs.

Consider the circumstances faced by the two EDs from African countries, Nigeria and Equatorial Guinea, who represent, respectively, 19 and 24 countries. Most of these countries are likely to have ongoing programs with the IMF that require EDs to engage in negotiations and in subsequent oversight activities, making for a formidable work load in comparison to the developed-country EDs representing only their own country, which is not involved as an IMF client.[17] It should also be noted that the Chinese, Russian, and Saudi Arabian EDs occupy single-country seats that are technically designated as "voting group" seats. In consequence, the number

[17] See Evans and Finnemore (2001: 27-31) for a fuller description of this problem.

of voting groups for all other IMF members is reduced and the remaining voting groups have more members than they otherwise would.

Notwithstanding this elaborate system of weighted voting, special majorities, and voting groups, formal votes are rarely taken, leading one observer to refer to the IMF's voting system as "a kind of subterranean centerpiece of the Fund's decision-taking machinery" (Lister, 1984: 39). Instead, the practice that has evolved entails decision by the "sense of the meeting," or consensus, as determined by the Fund's Managing Director in the Executive Board and Board of Governors.[18] Some argue that the actual casting of weighted votes can "emphasize conflict and jeopardize the ability of [any international] organization to reach a consensus on the action to be taken" (Zamora, 1980: 589). Others suggest that, "passage of a disputed measure by weighted vote is not very useful in agencies that must depend on governments for implementation of decisions and recommendations" (McIntyre, 1954: 481). It would be mistaken, however, to conclude that the weighted voting system does not strongly influence bargaining in, and the decisions that result from, the consensus-formation process. "Ultimately, the 'sense of the meeting' cannot but be reflective of the respective voting powers of those who favor and those who oppose a given proposal" (Lister, 1984: 108). As Ferguson (1988: 65) puts it, "[n]ot only is consensus integrally linked to the fact of

[18] This informal method originally came into practice because the United States, wanting to avoid overt assertion of its preponderant voting weight (initially over 33 percent), "found it valuable to veil its power through conventions that convinced other countries that the rules of the game were reasonably fair or at least better than no rules at all" (Kahler, 1990: 97; see also Southard, 1979: 5-6). Because of wide discrepancies in voting weight, formal voting had proven contentious in the early years of the Bretton Woods system. But once the practice of consensual decision-making emerged, "discrepancies in voting power ceased to be a perpetual irritant" (Gold, 1972: 29). See also Besteliu (1977).

the relative voting power of the membership, but always hovering in the background is the constitutional right of members to demand a formal vote at any time."[19]

Most observers seem to agree that the IMF's consensual decision methods serve to increase developing countries' level of participation in the Fund (e.g., Besteliu, 1977; M'Bow, 1978; Evans and Finnemore, 2001; Van Houtven, 2002: chap. IV).[20] This positive appraisal, however, is contested by others on grounds that consensual procedures in the Fund and other multilateral organizations, "significantly limit the transparency and accountability of decision-making" (Woods, 2000: 832). More specifically, consensus decision-making in international organizations results in key decisions being made outside formal meetings in informal negotiations that supplant formal rules; involves unrecorded votes, that limit accountability and transparency, and; favors those that are able to back their policy preferences with greater power resources (Woods, 1999: 49-52). Along these lines, Blustein (2001: 34) claims that, despite the outward appearance of consensual decision-making in the IMF, "real power lies with the top economic policymakers of the G7 countries," especially the select group of G7 deputies, which "might be described without too much exaggeration as puppetmasters pulling strings behind a screen."

In sum, even with the precision implied by quota formulas and voting weights, there are various points at which the quota determination process appears arbitrary and/or ad hoc. First,

[19] See also Eckaus (1986: 244), who infers that "it [consensual decision-making in the Executive Board] must be a procedure that is acceptable to all members, since any member at any time can call for a [formal] vote and that appears to have been done only rarely." Evans and Finnemore (2001: 14) add that, "[h]aving a formal summary of debate in the Executive Board meetings makes it hard to claim consensus if too many of the EDs are opposed."

[20] A number of developing country EDs in the IMF and World Bank surveyed by Bichsel (1994: 147-50) seem, on balance, to be satisfied with the consensual decision-making in the respective Executive Boards.

though the variables used in the formulas are not unreasonable, the overall rationale for these variables (and for the exclusion of others), as well as the weights assigned to them, is not self-evident. Second, actual quotas deviate from calculated quotas, with this difference determined through a negotiation process that is less than transparent. Third, whether the differentials between calculated and actual quotas widen or narrow in any given GQR depends in large part on the division between equiproportional and selective increases, a choice that rests with the discretion of the Executive Board. Finally, most IMF decisions emerge from murky consensual procedures which, though often lauded as affording developing countries greater influence, are argued by others to result in less transparency and accountability.

In practice, then, these arrangements leave a fairly wide margin of political maneuver, within which *someone's* political or economic judgments, or interests, shape quota values and thus also voting weights. Yet it would be mistaken to infer that whatever arbitrariness exists in the quota determination process is motivated by or results in systematic bias, unfairness or consistent manipulation of developing/debtor countries by their developed/creditor counterparts, though of course no small measure of these takes place. Rather, the evolution of the formulas and their constituent variables and weights reflects a series of incremental efforts to adjust to changes in the world political economy, including decolonization and the need to accommodate large numbers of newly-independent developing countries, the impact of increased energy prices in the 1970s, the 1980s debt crisis, the emergence of the transitional economies, and various other smaller changes in the status quo represented by the previous GQR. Indeed, a large part of the difference between actual and calculated quotas is attributable to repeated attempts to modify marginally existing procedures in order to provide larger quotas and more voice to smaller, poorer developing countries. Thus, Jeker (1978: 219) observed some years ago, "the negotiated quotas already include a 'bonus' to LDCs." And Officer (1991: 208) concludes from his study of the 1950-1985 period that "favoritism toward LDCs increases over time." The greater the scale, depth, and velocity of these changes, the more difficult is the political task of adjusting the cross-national distribution of IMF quotas and voting weights.

As Woods (1999: 44) persuasively argues, developing countries are major stakeholders in the international financial institutions and, as such, their participation "requires that affected parties have access to decision-making and power so that they acquire a meaningful stake in the work of the institution." Though in principle all IMF members may access Fund resources, because of their access to expanded private capital markets, no developed country has done so since 1978. In consequence, a kind of role polarization – between debtor developing countries and creditor developed countries – has crystallized. Developing countries are the "users" of the IMF, while their developed counterparts, who dominate rule-making, "do not use the institutions and do not, therefore, have to live with the consequences and failures of their policies" (Caliari and Schroeder, 2003: 2).[21] But this is not to say that the developed countries provide all of the Fund's resources, as the developing members' debt service is a major source of the IMF's operating funds.[22] As one (un-named) Executive Director from a developing country observed: "The industrial countries provide the capital, but the Fund does not spend the capital, it loans it. The developing countries are paying the interest that keeps the institution running" (quoted in Bichsel, 1994: 148).

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[21] This trend toward two *de facto* categories of IMF members is increasingly difficult to reconcile with the Fund's principle of "uniformity," i.e., one class of members, all of whom receive uniform treatment. The far-reaching implications of this shift for IMF operations are explored thoroughly by Bradlow (2001).

[22] See Mohammed (2003) for analysis of the more subtle and technical means – aside from interest – by which the IMF has shifted more of its operating costs onto borrower countries.

How has this problem of developing country representation been addressed? Over the decades, the piecemeal historical pattern has been for developed countries to agree periodically to bend the IMF quota formulation procedures, in large part to try to provide many poor and/or small developing countries with a more consequential role in the Fund's decision making (thus the disparities between actual and calculated quotas). The extent to which developing countries have been so favored is revealed in Table 1, which reports the total quotas controlled by different groups of countries, with the groups defined by income level. Note in particular the disparities between actual (i.e., current) and calculated quotas. High income countries hold over 62 percent of current quotas, well short of the 74 percent they would control were the formula-driven calculated quotas operative. Japan and Germany appear to be significantly under-represented, as are the fifteen EU members in the aggregate (30.4-37.1 percent). All other categories are over-represented: OPEC (9.8-5.6 percent), upper middle income (only slightly, 9.2-9.0 percent), lower middle income (10.9-8.2 percent), and low income (7.1-2.9 percent).[23] Thus, measured against the standard of the IMF's own quota determination procedures – although we do not wish to suggest that this is the only standard or even that it is the most reasonable one – there is little basis for increasing developing countries' quotas/votes. Only the upper-middle income countries have quotas that are commensurate with the IMF's estimate of their relative economic importance. Both the lower-middle and low income groups, as well as the OPEC countries, are clearly over-represented in relation to their position in the world economy.

Despite being over-represented in this rather narrow, technical sense, it is easy to understand why poorer countries feel under-represented in the more subjective terms of lacking

[23] Note that there are numerous individual countries that are over- or under-represented in ways contrary to the general patterns discussed in this paragraph.

meaningful, equitable, or effective voice and influence in the IMF's decision making. The 61 countries in the low income category share a combined quota share of 7.1 percent; their average quota is slightly more than one-tenth of one percent (0.00116). The combined quotas of the 110 countries in the lower-middle and low income categories total almost 18 percent, only a fraction of a percentage point more than the U.S. quota: More than a hundred of the poorest countries with over two-thirds of the world's population would have to vote in unison in order to achieve a veto of any decision requiring an 85 percent majority. We admittedly find it difficult at best to define what constitutes meaningful, equitable or effective participation in the IMF, but we are confident that the current voice of these 110 countries falls short of any reasonable standard.

How much quota share would have to be transferred from which countries in order to provide fair and meaningful levels of participation in the Fund, while at the same time satisfying the justified demands of many Asian countries for increased voice? Would another five percent be adequate to achieve fairness? Ten? Fifteen? There is no clear, non-arbitrary focal point along the path toward the end point of sovereign equality – a one-country, one-vote decision rule, which is clearly not going to happen and which raises other serious fairness issues.[24] And which countries would be asked to surrender how much quota, and by what criteria? Another casualty of the way the distribution of IMF quotas originated and has since evolved is the conceptual coherence and legitimacy of the methods used to determine them. Along the lines of the famous

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[24] Following the example of the Inter-American Development Bank, a case can be made for a 50-50 division of votes between developed country capital contributors and developing country users/borrowers, so as to achieve a rough balance of their respective interests (Birdsall, 2003; Griffith-Jones, 2002). Buira (2003a) argues that, "[d]ebtor and potential debtor countries should have a considerable voice but not an assured majority." Interestingly, the IMF (2003: 5) reports that "a number" of EDs, "cautioned that changes in quota distribution should not target an *a priori* distribution between groups of countries."

aphorism, "If you've ever seen sausage (or legislation) made, you won't want to eat (or be governed by) it," it is little wonder that the IMF quota determination process commands little respect among those who have observed it. Our survey of the IMF's complex quota determination and voting regime revealed various points of arbitrariness, susceptibility to political influence, and lack of coherence. And, more detailed examination of the quotas reveals many anomalous outcomes and gross inequities (see Strand and Rapkin, 2004). With these concerns in mind, the next section reviews various proposals for reforming IMF methods for allocating quotas and votes.

REFORM PROPOSALS

Various reforms have been proposed to simplify and make more transparent the quota-determination process, to change the variables used to estimate countries' relative importance in the world economy and their need to access IMF resources, and to correct other IMF practices thought to be unfair to developing countries. Our discussion is of course meant to be general rather than providing precise operationalization of possible reforms. Before examining these proposals one by one, we first discuss what might be termed the parameters of reform, that is, political, practical and rule-based constraints that delimit the scope of likely reforms.

Reform Parameters

Whether proposed reforms require amendment of the Fund's Articles of Agreement forms one parameter of reform. Proposals that do not need formal amendment are likely to be much easier to pass than those that do. For example, initiatives to increase the amount and proportion of basic votes would require formal amendment (and thus would be subject to U.S. veto) whereas expanding the number of executive directors or steps to increase developing country personnel in the IMF would not.

Another parameter arises from the objective of designing a simpler, more transparent method of determining quotas and voting weights. No matter how fair or delicately balanced a particular reform might be, it is not likely to be implemented if it fails to reduce the complexity and opacity of the existing arrangements. In addition to simplicity and transparency, reforms – especially of the quota determination procedures – should be logical and coherent. It is not likely that reforms will garner wide support just because they shift votes one way or the other.

Another constraint stems from the practical question of whether developing countries would be able to make the financial contributions called for by any reform that would dramatically increase their quotas. The concern is that in consequence of reforms that shift votes from developed to developing countries, "the resources of the IMF are likely to be negatively affected" (Gordon, 2002: 7). Buira (2002), however, points out that the amounts involved are small enough in relation to developing countries' GDP to be affordable and, moreover, only 25 percent of quotas is paid in hard currencies, with the balance paid in each country's home currency.[25] Besides, the international reserves held by developing countries exceed those at the disposal of the developed countries. Buira contends, therefore, that the "inability to pay" argument is weakened to the point of irrelevance, at least for reforms that would marginally change the status quo. Surely this constraint would become relevant, though, for more ambitious reforms that move further in the direction of the egalitarian end-point of "one country, one vote."

A corollary to the possible inability of developing countries to bear the costs of increased quotas is the unwillingness of developed countries to cede much by way of quotas, voting

[25] Developed countries might insist as a quid pro quo that the share of quotas that must be subscribed in hard currencies be increased beyond 25 percent if developing countries are to receive larger quotas and shares of votes.

weights, and thus also control over IMF operations. As IMF managing director Horst Koehler periodically reminded developing countries seeking a greater voice, the IMF is a "resource-based institution" based on capital submissions; if the major contributors are compelled to yield quota shares to developing countries, the IMF may have difficulty continuing to "do its job" (cited in Rowley, 2000). The not-so-implicit threat is that the developed country creditors may well choose to weaken their support of the IMF if the debtor countries insist on greater voice and influence within the organization. Even if the developed countries were to acquiesce, it is claimed, placing too much power to determine lending policies in the hands of borrowers risks undermining creditor confidence in the IMF, its ability to recycle capital, and, more generally, its authority in the international financial system. Whatever the merit of these arguments, they may well be moot if the developed countries adamantly resist change since, "voting power is structured so that the Fund is incapable of taking any action that the industrialized countries feel contradicts their national interest or the interests of private actors based in their jurisdictions" (Evans and Finnemore, 2001: 13).

The initial targets of quota reform are likely to be smaller Western European countries, widely perceived to be too generously represented, but the spotlight will inevitably shine on the U.S. and its exclusive veto privilege. Indeed, the efforts of the United States to block even *discussion* of almost all the reforms discussed below – let alone consent to quota/vote redistributions that would strip its veto power – severely restrict, for the time being at least, the reform process, precisely because the 85 percent majority required for changes in quotas provides the U.S. with a formal veto on eighteen important categories of decision. Various reform proposals take this "creditor opposition" parameter as a given, and accordingly steer their proposals around it. Evans and Finnemore (2001: 15), for example, assert that, "[t]he bottom line with regard to governance is that the formal rules are unlikely to change substantially," and proceed to develop proposals that purposively avoid formal changes in the quota regime. Kelkar et al. (2004: 731) are more straightforward: "[A]ny proposed reform of the quota system must not seek to remove the veto power of the largest individual creditor, the US, as such a proposal would be politically stillborn."[26] Below we consider a wide array of proposals, including the politically improbable, as well as those which are more feasible. While sympathetic to the need for a realistic approach, we view our task as considering the full range of alternatives that are in principle possible in order to sketch how a more fair, legitimate and effective IMF might aggregate the preferences of its members.

Leadership Selection

One area undeniably in need of reform in the Bretton Woods institutions is the method for selecting top leadership, presently a non-transparent process that aims neither to achieve political representativeness nor to select the most competent, meritorious candidate (Woods, 2001; Bryant and de Fleurieu, 2004). By informal convention, the Managing Director of the IMF has always been a European (and the President of the World Bank a U.S. citizen), though as Kahler (2001: 39) points out, historically, successful European nominees for the IMF's top post have, "required support (or at least acquiescence) from both the United States and a substantial share of developing countries." The institutionalized privileges inherent to this opaque method of leadership selection were revealed in 1999-2000 when a public controversy erupted over the successful challenge by the United States and other countries of the German nominee (see Kahler, 2001: chap. 2, for an account of this episode). The second German choice was eventually

[26] EU members may also resist proposed changes that would cost them their collective veto power.

approved, but the legitimacy of the informal convention was seriously undermined. In light of the negative symbolism projected by U.S.-European domination of the leadership selection process, we think Kahler's (2001: 81) reform proposal is a useful starting point:

> The US-European monopoly on the positions of World Bank president and IMF managing director should be dismantled through a G-7 declaration that endorses global diversity in the leadership of these international organizations and others. If the United States and the European Union are unwilling to end their duopolies, the other members of the IMF and the World Bank should insist that two or more candidates be presented for consideration in the next leadership selection.

Furthermore, the Managing Director "should be selected through a transparent process that involves all member countries and assesses candidates on merit, regardless of their nationality" (Caliari and Schroeder, 2003: 7). In April 2001 a joint IMF-World Bank committee proposed partial steps to reforming IMF leadership selection, including opening the nomination process to candidates from any country. Although the executive boards of both institutions approved these recommendations as future guidelines, they are yet to be implemented, as evidenced by the selection of Rodrigo Rato of Spain to succeed Germany's Horst Koehler in May 2004. [At the World Bank, retiring President James Wolfensohn's successor is expected to be an American.] Hence it is clear that the ability of the U.S. and European countries to resist such a reform should not be underestimated. The fact of the convention's informal status, however, means that the Articles of Agreement would not have to be amended to accomplish change of this glaringly unfair practice.

Personnel

Another aspect of the Fund's operating procedures that can be reformed without amending the Articles of Agreement involves the background and composition of its staff. The Fund fails to meet its own informal convention that the nationalities of staff members should mirror the distribution of quotas. Instead, the industrialized countries, especially the English-speaking ones, are significantly over-represented (Lahti, 2000; Evans and Finnemore, 2001). Beyond diversification of the staff's national origins, however, is the overwhelming, "homogeneity of training and outlook" (Evans and Finnemore, 2001: 24) of staff, most of whom are trained in neoclassical economics in American, and to a lesser extent European, graduate programs. Accordingly, we agree with Evans and Finnemore's (2001: 2) proposals, "to increase the extent to which perspectives derived from the experiences and interests of the member countries of the South are incorporated into research, policy formulation, and decision-making within the Fund." A more specific problem involving staff expertise is the dearth of staff support for developing country executive directors, especially the two African country executive directors, each of whose constituency consists of more than twenty members. The Fund (2003: 3) is already taking steps to implement modest measures to enhance the staff capacity of those ED offices with large constituencies. Indeed, this is the only reform that the U.S. has not blocked.

Basic Votes

Recall that the original intent behind the decision at the Bretton Woods Conference to provide each IMF member with 250 basic votes was to recognize the sovereign equality of states and to avoid the appearance of making decisions exactly like a corporation. Basic votes initially accounted for 11.26 percent of all votes, but there is no constitutional mechanism to maintain the ratio of basic votes. Hence, the 250 basic votes standard has remained in place over decades of admission of new members and substantial increases in quotas/votes, with the result that basic votes have dwindled to a mere 2 percent of total votes (with the balance determined by formulas and negotiation, as discussed earlier). There have been numerous proposals to increase the number of basic votes from 250 to assorted targets. Even this, or other one-time increases, would only temporarily redress the diminishing share of basic to total votes, until overall quotas are again increased. Alternatively, a set proportion of votes could be assigned as basic votes. For instance, the Asian Development Bank sets its basic votes at 20 percent of all votes, while others suggest restoring the original 11.26 percent set at the Bretton Woods conference. And, the Kelkar proposal (to be discussed more fully below) sets basic votes at 12.5 percent of the total. Such a change in the IMF's use of basic votes would ensure that the influence of basic votes would remain constant even when there is an increase and/or reallocation of total votes. Smaller, poorer states would not lose as much ground when such adjustments are made.

It is evident then that a sufficiently large increase in basic votes could significantly bolster the votes of developing countries, especially if the increase is made permanent by setting basic votes as a fixed percentage. But, any designation of either an absolute number or a proportion of basic votes is necessarily arbitrary, except possibly restoration of the original 11.26 percent, and thus would likely be difficult to negotiate. O'Neill and Peleg (2000: 9) make an even more persuasive argument against the use of basic votes as a component in weighted voting schemes: "[C]ountries have two sources of importance – their contribution and their sovereign importance as states. These two are incommensurable, so they should not be lumped together as a single weight." Basic votes, therefore, may not be the optimal method to express the sovereign equality of states. Moreover, changing the structure of basic votes would be difficult in so far as it would require amendment of the IMF's Articles of Agreement. Remarkably, the IMF (2003: 6) itself proposes, as part of a larger package of measures, an unspecified one-time increase in basic votes, while acknowledging that, "at this stage, the required majority does not exist."

The Assignment Problem

Another unresolved issue considered by the QFRG and others is whether a single quota should continue to be used for multiple purposes, or whether separate measures should be generated for purposes of assessing ability to contribute, need to access IMF resources, and determination of voting weights (Kelkar, et al., 2004; Jha and Saggar, 2000). Ideally, to solve this assignment problem, these three functions should be determined by different formulas such that there is one measure for each objective. In view of further reforms described below, however, we propose two different measures, with GDP doing double duty. The level of a member's *contribution*, or quota, should derive directly from its relative weight in the world economy, i.e., GDP (see below). The extent of members' *access to Fund resources*, in contrast, is not reflected in GDP-based measures, but instead should be linked to instabilities in the components of their balance of payments, i.e., vulnerability (or gross financing need). Moreover, we concur with Kelkar et al.'s (2004: 738) recommendation that the link between quotas and access be severed.[27] *Voting weights* could be determined by measures of economic importance, such as GDP. We discuss determination of voting weights below, but the key point here is that at least one more separate measure needs to be developed – with a clear objective and rationale – to correspond to the different functions served by quotas, something lacking in the original Bretton Woods

[27] In practice, the link has already been ruptured, as recent bailouts of Thailand, Indonesia, and South Korea during the East Asian financial crisis, as well as others since, have greatly exceeded what would be allowable (300 percent of quota) under the IMF's access policies; Turkey, for example, borrowed 2900 percent of its quota in 2002 (Kelkar et al., 2004: 738).

formulation and in later modifications. Such a change would necessitate amendment of the IMF's Articles of Agreement, and thus would require an 85 percent majority (and be subject to U.S. veto).

Revised Variable 1: Vulnerability/Access to Resources

Accordingly, there is a need for a separate measure to determine countries' access to IMF resources that is based on vulnerability and is independent of quotas. This formula should continue to incorporate instability in export receipts, while adding some measure of the volatility countries experience in inflows and outflows of capital (some have suggested consideration of poverty and external debt as well). In view of the increased importance of private capital flows in the contemporary world economy, the Executive Board apparently favors their inclusion, but issues of operationalization – whether to use and how to measure indicators of financial openness, capital flows, and capital stocks – remain unresolved.

Revised Variable 2: Trade

Current IMF quota-determination formulas use the five-year moving averages of current receipts (exports) and current payments (imports). These seem to be interpreted as indicators of openness, though elsewhere (Strand and Rapkin, 2004) the case is made that when converted into shares of world exports and imports, they better connote the importance of a country in the world trading system, and thus also in the world economy. Regardless of the substantive connotation one assigns to these indicators, their mathematical role in the formulas is the same. A serious bias arises, however, in the measurement of this variable for the 12 Eurozone members: "[I]ntra-currency union trade boosts the 'openness index' even though [it] is not subject to balance of payments crises as members share a common currency. In other words, states within a currency union do not generate a financing need that needs to be addressed by the Fund" (Kelkar et al., 2004: 735).[28] Table 1 reports that the 12 members of the Eurozone account for over 35 percent of world trade, a share that substantially inflates these countries' quotas. The G24 Secretariat (2003) estimates that if intra-Eurozone trade is removed from the tabulation of these countries' exports and imports, their combined quota share drops by a precipitous 11.4 percentage points, from 28.3 to 16.9 percent. Thus, the bias stemming from inclusion of intra-Eurozone trade is a significant source of the over-representation of European countries in the determination of the IMF's calculated quotas and should be corrected.

New Variable 1: PPP-based Measures of GDP

Advocates of larger quota shares for developing countries maintain that converting GDP with market exchange rates significantly underestimates the GDP of many developing countries (e.g., Officer, 1991; Jha and Saggar, 2000; Buira, 2003b). This bias results from the disparity between domestic and international prices of tradable and nontradable goods and services. In addition to correcting this measurement bias, PPP-based measures are much more stable, thus avoiding the exaggerated swings that result from exchange rate volatility. As the data presented in Table 1 shows, using the purchasing power parity measure of GDP would translate into large differences in the distribution of quotas. For instance, the G7 countries share of world GDP would fall from 68.7 to 46.9 percent, and that of the high-income group from 79.9 to 55.2 percent – a 31 percent reduction amounting to one-fourth of the global product. OPEC countries' share would increase from 2.7 to 5.9 percent, while the remaining developing country categories would all register

[28] As Kelkar et al. (2004: 734-735) point out, the same proviso applies to entrepot and maquiladora trade.

significant increases: upper-middle income, 8.5 to 11.3 percent; lower-middle income, 6.3 to 19.3 percent, and; low income, 2.6 to 8.2 percent. On a PPP basis, China's weight in the world economy is larger than Japan's. These represent large-scale shifts that would be consequential in light of the emphasis on GDP in existing and proposed quota-determination formulas.

But are PPP-based GDP measures more valid conceptually than the market exchange rate version as an indicator of relative economic size, weight or importance? We think so, but PPP-based GDP indicators are not entirely unproblematic: there are alternative PPP-based measures, and data is not as widely available as for the market-based version (Wagner, 1995; QFRG, 2000a: 57-61), though the magnitude of effort required to extend PPP-based measures to universal coverage does not seem prohibitive. The purported advantage of the market exchange rate indicator is that it better reflects the capacity of countries to contribute resources to the Fund.[29] PPP-based measures are suitable for purposes of cross-national comparison of living standards, but if a country's currency is not usable in international commerce questions arise as to whether PPP provides a valid yardstick of that country's effective participation in, or impact on, the world economy. There are more substantive and methodological issues regarding the appropriateness of PPP-based GDP than can be considered here. More data, research, and debate on the implications for state's quotas is needed. What is clear is the fact that a switch to PPP-based measurement of GDP would shift considerable IMF quota and votes from developed to developing countries is not in itself sufficient reason to either oppose or favor such a change. Until the technical issues can be resolved, Buira's (2003a: 21) suggestion that the mean of the

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[29] Although the Fund claims that a "majority" of the Executive Directors do not favor adoption of the PPP-based measure, Kelkar, et al. (2004: 20) point out this refers to a majority in terms of voting weight *not* a numeric majority of the individual Directors.

two GDP measures be used in IMF quota-determination procedures seems a reasonable compromise.

New Variable 2: Population

Since only about 15 percent of the world's population resides in the 27 high income countries that hold about 80 percent of IMF quotas, changes in the quota-determination procedures to include population could only shift quota to the other 152 countries that presently hold the remaining 20 percent. Unlike GDP or the other economic measures included in the IMF formulas, however, population does not have any direct bearing on the Fund's missions. As Lister (1984) suggests, schemes for weighted voting and special majorities should meet the criteria that, "each state can exercise an impact of the same order of magnitude in the voting as it exercises in the fields for which the organization is responsible." In other words, weighted voting requires a functionally specific basis for determining weights. So, though it is hard to dismiss altogether population, especially in light of its importance to concepts of democratic representation, the lack of "a clearly defined basis" linking population to the purposes of the IMF and thus also to quotas, as well as its political unacceptability to developed countries, make inclusion of population hard to justify and a political non-starter.[30]

New formula 1: QFRG

[30] McNicoll (1999: 411, 412) provides a very useful discussion of what he terms "demographic inconsequence." "Like the dog that didn't bark, the absence of population weights in the international order is… worth exploring." McNicoll attributes demographic inconsequence to, "the divorce between population and power and the resilience of the doctrine of the sovereign equality of states." As the trends in basic votes indicate, the first of these seems much more potent than the latter in the case of the IMF.

The QFRG (2000a) has provided a useful appraisal of the Fund's allocation of quotas, but it was given a rather limited mandate. The QFRG was asked to consider only reforms that would not require amending the IMF's Articles of Agreement. This constraint precluded consideration of multiple quotas, increases in basic votes, alternatives to weighted voting, and, more generally, kept the reviewers from considering ways to significantly overhaul the Fund's internal governance procedures. The QFRG proposal does simplify the process of quota determination, offering a single equation with two variables, and two sets of weights: GDP converted at market exchange rates is weighted more heavily for developed countries, and variability (of current receipts), an indicator of need to access IMF resources, is weighted more heavily for developing countries. But variability seems to be distributed across all categories in fairly close proportion to actual quota shares – more so than any of the other indicators – so this aspect of the QFRG proposal hardly seems to convey much overall quota benefit to developing countries (see Strand and Rapkin, 2004).

The resulting emphasis on GDP (the market exchange rate version) results in a transfer of quota shares from developing to developed countries (see table 1). The increase in the U.S. quota share from 17.5 to 22.5 percent that would result from adoption of the QFRG proposal was described by one anonymous IMF staff member as, "the answer to no question anyone can think of" (cited in Fidler, 2000). In sum, despite the desirable parsimony and clear logic, the QFRG proposal proved unacceptable to the Executive Board because of the unwanted redistributive outcomes it would produce (Van Houtven, 2002: 8). Nonetheless, there is "broad support" in the Executive Board for "a simpler and more transparent" formula "based on an updating of the traditional economic and financial variables," accompanied by acknowledgment that the formulas being considered, "would not lead to a significant change in calculated quota shares across country groups" (IMF, 2003: 4, 5). Elsewhere, the Joint Fund-Bank Development Committee (2003: 8) reports that, "[t]here is not at present sufficient support for a specific new formula or for a general quota increase" that would enable redistribution in accordance with any new formula.

New formula 2: Kelkar

In contrast to the QFRG proposals, which would further concentrate voting weight in the developed countries, the index designed by Vijay Kelkar aims to shift votes toward the developing countries. As reported in Table 1, the Kelkar index accomplishes this purpose, if only in the sense of postulating an alternative future for the IMF in which the distribution of votes is more favorable to developing countries, particularly those in the lower middle and low income categories. The Kelkar formula is based on PPP-based estimates of GDP (75 percent) and also incorporates an increase in the proportion of basic votes (to a fixed 12.5 percent), as well as population (12.5 percent).[31] Although the formula is straightforward and parsimonious, its component variables and weights are somewhat arbitrary, selected primarily for purposes of increasing developing country votes. As discussed earlier, population is not a property that relates to the mission of the IMF. Even if one feels strongly that it should be included in some fashion, it is not clear why it should be weighted at one-sixth the value of GDP. And while we agree with the objective of assigning more importance to the sovereign equality of states in the IMF's quota determination process, we again ask why 12.5 percent? Besides symmetry, is there a substantive or operational reason for basic votes to be weighted equally to population? Or at one-sixth the weight of GDP? In sum, without a more logical and less arbitrary basis for the

[31] Elsewhere, Kelkar et al. (2004) propose another index that drops population, while retaining the PPP-based measure of GDP (88.7 percent) and basic votes (11.3 percent), the original level set at Bretton Woods.

components and weights of the Kelkar index, it is unlikely to command much support other than among the developing countries that would directly benefit from its implementation.

Expanding and/or Restructuring the Executive Board

Various proposals to restructure the Fund's system of selective representation aim to change the composition or size of the Executive Board in order to increase the number of developing country EDs. Most of these proposals call for over-represented European countries to consolidate into fewer voting groups[32] and relinquish some of their nine (out of 24) EDs to developing countries, especially to African members, over forty of which are represented by only two EDs. A more politically feasible alternative would be to add new seats to the Board, though this would make it more cumbersome and less efficient.[33] Evans and Finnemore (2001: 29), for example, suggest adding two more seats and increasing the number of African voting groups to four, while others recommend increasing African representation by a single seat (Griffith-Jones, 2002: 13).

[32] We do not address the larger question of how EU member countries should be represented in the IMF – individually, corporately, or some hybrid arrangement. Benassy-Quere and Bowles (2002) point to two alternatives: in the first, each EU member would retain its national representation on the Board of Governors but would be consolidated into one or several voting groups in the Executive Board. The second would merge all EU members into a single seat on both Boards; this alternative is legally problematic since, unlike the WTO, only states, and not groups of states, are eligible for IMF membership. Another way to trim European quotas/votes would be to no longer count intra-EU trade as international trade (current receipts and payments in the quota determination formulas).

[33] Perhaps because it has not required amending the Articles of Agreement, the Executive Board has frequently been expanded from its original 12 EDs (representing the original 39 IMF members). The most recent increases were to 21 EDs in 1978 when Saudi Arabia was given an individual directorship; to 22 to provide China with its own ED, and; to 24 in 1990-92 to accommodate Russia and Switzerland. Presently, these 24 EDs represent 182 members.

Even such a modest proposal, however, as adding one African ED to the World Bank's Executive Board has been opposed on grounds of a lack of consensus by the United States (Lobe, 2003).

A related approach to reforming the EB involves placing a ceiling on the number of members in voting groups in order to equalize the workload faced by EDs from differently sized constituencies (see the discussion on pages 10-11). Currently, eight countries have their own ED, nine voting groups have between four and ten members, three voting groups have twelve and four groups have between 13 and 24. Accordingly, some observers propose capping the number of voting group members at no more than 10 (Caliari and Schroeder, 2003: 4), 12-15 (Buira, 2003b: 236), or 16 (World Bank, 2003).[34] Restructuring the Executive Board will require a high degree of cohesion and agreement thus far absent among members with the largest votes. Moreover, there may be discord between groups of developing countries over the allocation of new seats and/or the realignment of voting groups.

Consensus Decision-making in the Executive Board

The question of EB reform leads to the contentious topic of consensus decision-making in the EB (see the discussion above on pages 11-12). We agree with Woods (1999) that the transparency and accountability costs of consensual practices exceed the benefits. We therefore support proposals to reform EB decision-making by conducting formal votes, making public the record of deliberations, and revealing how EDs vote, perhaps after some set period of time has elapsed (Caliari and Schroeder, 2003: 5-6; De Gregorio, et al, 1999: 84-85). Another aspect of EB operations that has been criticized for limiting developing country voice is that EDs must

[34] Note Kelkar's (2002) more radical proposal that "every member of the executive board should be elected."

cast the votes of all members of their constituencies as a bloc; in other words votes cannot be split, even if there are diametrically opposed policy preferences within the voting group. Hence, we support proposals for a formal voting process that allows the splitting of votes, with each member casting its votes according to its preferences (Caliari and Schroeder, 2003: 5).[35]

Special Majorities and Ending the U.S. Veto

The original Bretton Woods Articles of Agreement called for nine types of issues to be decided by special majorities as large as 80 percent. Subsequent amendments to the Articles have increased this number to over 50, with some requiring 70 percent of the votes and others, including quota adjustments and amendment of the Articles of Agreement, calling for an 85 percent majority. The shift from 80 to 85 percent was engineered by the U.S. to enable it to retain its veto when the U.S. share of votes fell below 20 percent. One important consequence of this series of ad hoc adjustments and political tradeoffs is a haphazard arrangement which lacks, “any strictly logical basis for determining which decisions should require a special majority” (Lister, 1984: 95). And, as Woods (2000: 833) contends, “The problem with these uses of special majorities is that they skew the accountability of the organization away not only from its broader membership but also away from its other major contributors.” From a developing country perspective, “because voting itself is weighted – a situation that favors developed countries – there should be no need for special majorities” (Buira, 2003b: 231). We thus suggest the current special majority provisions be rationalized.

[35] There are provisions for this type of vote splitting in the European Bank for Reconstruction and Development, although they are rarely used.

Consideration of special majorities leads unavoidably to the politically-charged question of the U.S. veto which, in turn, raises broader questions about U.S. dominance of the IMF and the extent to which this dominance weakens the institution's legitimacy. In addition to its sizeable number of votes, its own ED, a large portion of the Fund's staff comprised of U.S. citizens, and its doctrinal influence, the U.S. also gains inordinate control through what Evans and Finnemore (2001: 14) term the "Treasury effect":

> The U.S. Treasury has become notorious for transmitting its preferences directly to Fund management and staff, rather than simply having the U.S. ED air them in Executive Board meetings. Combined with heavy lobbying efforts vis-à-vis individual member governments, this gives U.S. opinions sway even beyond the U.S.'s disproportionate share of voting rights.

Also diminishing IMF legitimacy is the fact that the G7 countries, especially the U.S., exempt themselves from the kinds of surveillance to which developing countries are routinely subjected. For example, the U.S. is the world's largest debtor and continues to register large and growing current account and budget deficits (which would be impossible were the U.S. not also privileged as the provider of the world economy's principal reserve currency). But IMF admonitions for the U.S. to address these imbalances – which no developing country could come close to replicating without drawing the ire of IMF – have been consistently brushed off or ignored altogether. Perceptions of different standards for developing and developed countries (or of no standards at all when it comes to the role of the U.S.) are exacerbated by what can be regarded as a gross distortion in the international allocation of savings: the hard currency the U.S. borrows to cover its current account deficit (and to sustain the profligate consumption that lies behind it) is drawn in significant part from developing country savings.

Finally, the power to block any resolution supported by, in the extreme, every other member, reinforces perceptions that the U.S. dominates the IMF, that it is in effect an instrument of the U.S. Treasury Department, and thereby undermines the legitimacy of the organization.[36] As O'Neill and Peleg (2000: 9) put it, "voting rules are symbolically important even when votes are rare." U.S. veto power is, in our view, symbolically toxic and should be abolished, possibly by setting the required special majority just beyond the largest member's vote total; or by waiting for the U.S. share of votes to fall naturally below the 15 percent threshold and refusing to increase further the required special majority.

Adopting a "Count and Account" Voting Method

Following the usual convention, we have saved for last our preferred alternative, a double majority voting scheme that O'Neill and Peleg (2000) call "count and account."[37] In order to pass, a proposal would need to receive a majority of the weighted votes *and* support from a majority of members. Although O'Neill and Peleg (2000: 4) develop the idea using simple majorities, which they argue are more natural and easier to negotiate, they also point out that the count and account method is compatible with various qualified (or in IMF parlance, "special")

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[36] Wade's (2002) illuminating account of how the U.S. Treasury controls selection of high level personnel and of doctrine in the World Bank suggests how similar control mechanisms operate in the Bank's sister organization (recall that the Bank's decision rules are derived from those of the IMF). On the output side, see Thacker (1999) for quantitative evidence that IMF lending is skewed by U.S. geopolitical priorities: countries that move toward closer alignment with U.S. preferences (as expressed in UN votes) are more likely to receive IMF loans than those that do not.

[37] For a more formal presentation of the advantages of a double majority system over a single majority "account" system see Peleg (1992).

majorities. Not only does the method recognize straightforwardly both the principle of the sovereign equality of states (by requiring a majority of members) and the power hierarchy among them (by requiring a majority of weighted votes). It also manages, unlike the IMF's combination of basic and weighted votes, to reconcile these two considerations without compromising the logic or integrity of either. In these senses, the logic of count and account is analogous to that of bicameral legislatures, e.g., the U.S. House of Representatives and U.S. Senate. Brauninger (2003: 701), who develops the formal logic of multicameralism, concludes that, "a bicameral or k-cameral voting rule will be more likely to produce outcomes that are stable and will be implemented."[38] Adoption of some form of count and account would enable the determination of weighted votes to focus exclusively on mapping relative size/weight/importance in the world economy. For purposes of simplicity, and without need to factor in juridical equality or need to access IMF resources, weighted votes could be determined only on the basis of GDP (again, the mean of exchange rate and PPP-based operational definitions).[39] Basic votes could be discarded since one of the majority requirements already recognizes more directly members' juridical equality. Moreover, for the same reason, the IMF could rely exclusively on calculated quotas and dispense with the myriad ways in which actual quotas have been distorted by political influence,

[38] Brauninger (2003: 684) stipulates that the most important condition necessary for bicameral decision-making to have these salutary effects is that, "societal actors are divided by one major conflict, but have several common interests," a condition that appears to be met by the relations between developed country creditors and developing country borrowers in the IMF.

[39] Note that adoption of a count and account voting system as described here presupposes solution of the assignment problem, i.e., creation of separate formulas for the distinct purposes of determining ability to contribute, vulnerability and need to access Fund resources, and the allocation of voting weights.

as well as by well-intentioned attempts to bend the system to accommodate the participation of developing countries.

Another type of double-majority voting system would require any initiative to be approved separately by a (simple or special) majority of both developed and developing countries (Bradlow, 2001: 33; World Bank, 2003: 5). Implementing this version would require first abolishing the already-breached uniformity principle, i.e., the IMF would have to establish two categories of membership – developed country creditors and developing country debtors. We fear that this would leave unsolved, and might even complicate further, the thicket of difficult issues surrounding the determination of quotas. Choice between these two types of double majority voting warrants further study, but we are inclined to think that the former provides a cleaner, more logical solution that better reconciles the Westphalian, one-country, one-vote and weighted voting principles.

There are examples of both types of double majority voting in international organizations. The Global Environment Facility (GEF), for example, employs a consensus-voting rule but if consensus fails it defaults to a double majority requiring 60 percent of recipient countries and 60 percent of donating countries (Woods, 1999: 54-55). The International Seabed Authority, though it does not use weighted voting, employs a quadrilateral voting system in which the approval of four groups of member states – comprised of consumers, investors, net exporters, and developing countries, respectively – is required to pass an initiative (Brauninger, 2003). In the European Union's Council of Ministers a special majority of weighted votes and a two-thirds majority of countries are both required to pass certain resolutions. The EU's double majority is favored by small states because it ensures them a voice in decision-making. In fact, the IMF itself uses a double majority decision rule for amendment of its Articles of Agreement.

Article XXVIII, Section A requires a 60 percent majority of members and an 85 percent majority of voting weight to change the Articles. A double majority is also required for certain other Fund decisions, such as the expulsion of a member or denying a member state benefits (Gold, 1972b). The possibility of a double-majority decision rule is mentioned by the World Bank (2003: 5) in the context of reforming the use of special majorities, but is dismissed because, “it does not seem that changes in this area are likely to engender broad support.”

CONCLUSION

This paper first reviewed the complex array of practices that form the IMF’s quota determination and voting regime. This regime has evolved over six decades along an ad hoc, path-dependent course that leaves many key internal governance decisions subject to arbitrariness and inordinate political influence, as well as, according to many observers, is profoundly unfair to developing countries. Our analysis of the actual distribution of quotas and comparison of quotas to selected measures of weight/importance in the world economy reveals that developing countries – despite many having miniscule quotas that preclude meaningful participation – tend to be over-represented, so long as the calculus employed relies on the traditional variables and formulas used in the IMF’s quota determination process. Hence, we think it unlikely that further tinkering at the margins of the existing system will yield significant improvements.

Among the various reform proposals surveyed in the preceding section, we think three would produce sufficient structural change to serve as an effective centerpiece for a comprehensive overhaul of the IMF’s regime of quotas, votes and representation: increasing basic votes to a set percentage; a switch to PPP-based version of GDP, or; adoption of a double majority voting system. We favor some form of a count and account decision rule, primarily because it would simplify or eliminate other arbitrary and problematic aspects of this regime. In addition to reconciling neatly two contradictory regime principles – the sovereign equality of states and the necessity of empowering capital contributors – a double majority system makes basic votes dispensable; can be compatible with consensual decision processes if used only in cases of dissensus, and; would be consistent with a rationalized schedule of special majorities. Count and account is also fully compatible with other needed reforms we have considered: leadership selection, personnel, EB reform, and separate algorithms for the distinct purposes of determining ability to contribute, vulnerability and need to access Fund resources. Change from the existing weighted voting regime to one based on a double-majority decision rule would require amendment of the Fund's Articles of Agreement, no doubt a formidable political obstacle as it would require approval, ironically, by a double majority (a 60 percent majority of members and an 85 percent majority of weighted votes). This poses a formidable, indeed seemingly insurmountable, obstacle since it would be subject to veto by the United States – which opposes almost every reform discussed. Nonetheless, we think this or some other thorough-going reform will be necessary to restore the legitimacy and effectiveness of this powerful institution.

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Table 1
Shares of Current and Proposed Quotas and Select Indicators of Relative Importance by Income Group

Country/Group	Population	Trade	PPP-Based GDP	GDP	Current Quota	Calculated Quota	QFRG Quota	Kelkar Quota
G5								
United States	4.69	15.22	21.26	27.09	17.52	17.25	22.47	13.69
Japan	2.27	8.28	8.26	18.31	6.28	10.20	13.20	5.01
Germany	1.48	10.62	4.88	7.99	6.14	9.01	7.97	4.81
France	1.05	6.73	3.67	5.20	5.07	5.58	5.09	3.96
UK	1.05	6.13	3.45	4.00	5.07	4.99	3.91	3.96
EU (N=15)	6.72	44.12	21.06	28.73	30.35	37.12	29.49	24.40
Eurozone (N=12)	5.42	35.20	16.77	23.39	23.38	29.86	24.13	18.86
High Income (N=27)	**14.98**	**77.52**	**55.16**	**79.89**	**62.54**	**73.96**	**72.18**	**50.18**
OPEC (N=11)	**8.22**	**4.21**	**5.94**	**2.68**	**9.81**	**5.60**	**7.49**	**9.09**
Upper Middle Income (N=31)	**8.90**	**8.09**	**11.26**	**8.48**	**9.16**	**8.96**	**8.74**	**10.07**
Lower Middle Income (N=49)	**33.82**	**7.50**	**19.34**	**6.26**	**10.89**	**8.16**	**7.76**	**16.24**
Low Income (N=61)	**33.87**	**2.43**	**8.25**	**2.57**	**7.10**	**2.92**	**3.39**	**13.79**

Sources: All data except the Kelkar quota values are from the IMF (2000) and the QFRG (2000b). The Kelkar data are from IMF (2002, Table 9). PPP-based GDP, GDP and population are 1994 values. Trade is the average of current receipts and payments from 1990-1994. Current, calculated and QFRG quota values are calculated using data from 1990-1994.
Note: Only groups in bold sum to 100 percent.