CHAPTER 40

CONTENTS

Global Financial Governance

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At the start of its nearly 70-year history, the International Monetary Fund's (IMF) role was one of observer and dutiful functionary in the international economic system. However, with the onset of the world debt crisis, the fall of the Soviet Union, and the European financial crisis, the IMF's role as crisis manager has deepened. Moreover, as the world has continued to experience economic and political crises, the IMF has further institutionalized its power and influence in governing the global economy. It is during this period of turmoil and transition that the IMF emerged as an institution tasked with striking the delicate balance between financing and adjustment, and as a provider of economic policy norms. Originally designed as an institution whose primary goal was to help stabilize the system of exchange rates and international payments in the industrialized countries of the post-World War II order, the IMF evolved into an organizational body charged with the difficult task of global governance.

Indeed, particularly in the aftermath of the 2008 global financial crisis, which witnessed the collapse of financial institutions, prolonged downturns in world markets, and the massive and often unpopular bailouts of banks and companies by national governments, the deepening institutionalization of the Fund has manifested itself in the IMF's movement from international organization (the IMF as a lender of last resort) to global financial governor (the IMF as an organization capable of governing the world economy), given the need to coordinate global economic reform not only to ensure the stabilization of currency markets but also to bring about enhanced worldwide macroeconomic growth. This new period in the history of the Fund will most likely come to be viewed as one in which it has responded to great criticism and performed its most pivotal role as a norm-setting crisis manager. The direction the G20 chooses to set for the Fund will lay the groundwork for the institution's relevance within the global financial architecture in the coming decades.

The chapter begins with an overview of the history of the IMF. It then moves on to an in-depth discussion of current debates regarding the organization's expanding global role before considering the key criticisms and challenges it faces today, as well as stakeholders' attempts to push reforms that will improve its legitimacy. The chapter concludes that without continued reforms the IMF will struggle to fulfill its mandate, to the detriment of global economic growth and financial stability.

IMF: from Bretton Woods to crisis manager

This section provides an overview of the history of the IMF, a breakdown of its basic governing structure, and, finally, the organization's evolution from its founding as a post-war institution to its current and often controversial role as global financial crisis manager.

In response to the Great Depression of the 1930s and the calamities of World War II, the international community devised the International Monetary Fund and the World Bank at the 1944 Bretton Woods Conference in New Hampshire. Bretton Woods arose from the need to create a system of monetary exchange and financial relations that would prevent crises like those that had rocked the industrialized world in the post-World War I period from happening again. In this new system of fixed exchange rates, world currencies were adjusted to match—or become "pegged to"—the value of gold to protect against market fluctuations. The IMF was imbued with the power to intervene in economic policy when a country could not maintain its balance of payments.

The highest-ranking body in the IMF is its Board of Governors. It is comprised of one governor (typically the head of a central bank or a finance minister) and one alternative governor from each member country. The Board of Governors controls the admittance of new members into the IMF and the withdrawal of existing members. It is this body that retains the right to amend the IMF's Articles of Agreement and By-Laws, as well as the right to approve quota increases and allocations of Special Drawing Rights (see below). The Board of Governors is advised by the institution's Development Committee and the International Monetary Financial Committee.

With its 24 members, the IMF's Executive Board is responsible for the day-to-day workings of the Fund, for example overseeing existing policy relevant to global economic issues. The Executive Board represents all 188 member states, most of which are grouped into constituencies of four or more. Larger states, in particular China and the United States, have their own seats on the Executive Board. Executive Board decisions are made by consensus but there are times when formal votes are taken, after which a report summary of the decision is issued.

The IMF operates on a quota system, which is key to the management of the Fund's financial resources. Member countries are each assigned a quota determined by their relative position in the world economy—that is, countries that join the IMF are assigned a quota in the same range as the existing members with similar economic traits (i.e. size). This quota, in turn, determines a member country's maximum financial commitment to the IMF and its access to IMF funds. Quotas are denominated—or expressed in—Special Drawing Rights (SDR), the IMF's unit of account through which a country may obtain currency via the voluntary exchange of SDR between members, or an IMF designation through which member states with strong external positions are directed to purchase SDRs from those with weaker positions. IMF quotas are an important factor in determining a member state's voting power in IMF decisions, with votes being made up of basic votes plus an additional vote for each SDR 100,000 of quota that each member possesses.

The IMF quota formula used to assess a member's position comprises the following criteria: a weighted average of that country's gross domestic product (50 percent),[1] degree of openness (30 percent), its economic variability (15 percent), and its international reserves (5 percent). Currently—with its quota of SDR 4.1bn (about $64bn)—the United States remains the IMF's largest member, while the smallest, with a current quota of SDR 1.8 million (about $2.7m), is Tuvalu.

With 44 countries present at Bretton Woods, the decision to establish the IMF and World Bank was an achievement of functionalist cooperation. In particular, the IMF, as designed by British economist John Maynard Keynes and American economist Harry Dexter White was crafted to ensure the conditions necessary for stability and growth in the global economy, which, according to Keynes, would help foster a more peaceful and prosperous world. However, the two organizations were relatively feeble, ineffective, and ceremonial. The World Bank, with its mandate to provide loans to countries for development projects, was the busier sister organization, assisting in the rebuilding of war-torn Europe.

Things changed for the IMF in the late 1950s with the return to the free exchange of local and foreign currencies in Western Europe (an exchange otherwise known as current account convertibility), and in the 1960s as the IMF responded to fluctuations in global commodity prices with short-term loans for IMF members from the industrialized world. In 1971, when US president Richard Nixon announced the abandonment of the gold standard—the monetary standard established by Bretton Woods through which world currencies could be exchanged for the fixed rate of gold—it seemed as though the collapse of the Bretton Woods system would damage the very heart of the IMF's organizational strength. Yet, Nixon's announcement had the unintended consequence of creating a new role for the IMF that strengthened its involvement in the global economy. Coupled with an energy crisis in the early 1970s and rising commodity prices, the end of the gold standard turned the IMF's attention away from assisting industrialized developed states toward short-term lending to developing countries, thus taking on a role that its architects never imagined. By the late 1970s, the IMF had not lent to an industrialized country in over 30 years. In addition, the increasing globalization of capital during this time pushed the IMF to shift from managing small balance-of-payment crises to large and expectations-dependent capital account driven crises.

With the threat of the bankruptcy of Mexico in 1982, the world's attention shifted to assisting developing countries out of what seemed a perpetual debt crisis. Here, the IMF relished its newfound purpose of providing structural reform advice to developing countries that were influenced by the neoliberal ideas that filled its hallways. With rescue packages and Fund staff trying to protect crisis-prone countries from gyrations in the global economy, the IMF, and to a lesser extent the World Bank, were labeled as promoters of the "Washington Consensus" (1989), a set of ten policy reforms designed to fix the ailing economies in the developing world (see Table 40.1). These policies were no doubt influenced by neoliberal ideas about the value of markets, criticism of statist

Table 40.1 The ten policies of the Washington Consensus

Policy	Content
Fiscal discipline	Strict criteria should be implemented to avoid large budget deficits relative to GDP
Reordering public expenditure priorities	Moving away from subsidies and government administration towards neglected fields that promise high economic returns
Tax reform	Broadening the tax base and cutting marginal tax rates
Liberalizing interest rates	Allowing interest rates to be determined by the market
Ensuring competitive exchange rates	Allowing interest rates to induce economic growth
Trade liberalization	Including the elimination of trade protectionism and the encouragement of low tariffs
Liberalization of inward foreign direct investment (FDI)	Via the reduction of FDI barriers
Privatization	Including the privatization of state enterprises
Deregulation	Elimination of regulations that restrict the entry of new firms or those that impede financial competition, with exceptions in the areas of safety, environment, and finance
Property rights	Enhanced legal security for property rights and a reduced role of the state in such matters

policies adopted by developing countries in their striving for populism, and the positive view of individual entrepreneurship and liberties.

The IMF gradually moved from being a lender of last resort to playing a pivotal role as a global crisis manager. In the mid-1980s, the IMF played a key role in promoting policy coordination among developed countries' currencies and exchange rate systems as it became increasingly clear that the information gaps in the globalized economic system created inherited vulnerabilities. The *Plaza Accord* (1985), the *Louvre Accord* (1987), and the *Brady Plan* (1989) were key moments of international negotiation that depended upon IMF intervention. This trend continued as the fall of the Soviet Union in 1991 ushered in new members to the liberal global economy. Here, the IMF found its greatest role yet: re-engineering the socialist countries into liberal market-based economies. During this time, as tectonic shifts in the global economy solidified, the Fund embraced its influence as a provider of global ideas in times of crisis.

Financial crises continued to rock the international economy throughout the 1990s and 2000s. The interconnected nature of the global economy produced financial attacks in many Asian countries that spread to Russia, Brazil, Argentina, and Turkey. Of these, the 1997–98 Asian Financial Crisis—in which shortages of foreign exchange, falling currency values, and waning investor confidence in countries such as Thailand, Indonesia, and South Korea threatened to spread to economies the world over—played the greatest role in stoking international fears of worldwide economic meltdown, and underscored the need for a new approach to global financial management. The IMF responded with financial resources and its now infamous and often detested economic advice, or "conditionality." The painful adjustment caused by IMF conditionality came under the scrutiny of many of its members' governments. In particular, the IMF and the World Bank were increasingly criticized for their continued involvement in heavily indebted poor countries (HIPCs), and their repeated recycling of debt in these countries. As nongovernmental organizations (NGOs) and civil society organizations stepped up global campaigns in the capitals of advanced industrial countries in the mid-2000s regarding debt recycling and their low chance of debt repayment, the global effort toward debt forgiveness mounted for HIPCs.

Criticism of the IMF also came from emerging market economies. They had been subjected to IMF conditionality in past decades and now called for reform. Emerging market economies were emboldened in the 2000s as the global economic wealth shifted from the "West to the rest." The call for internal governance changes to reflect this shift in global economic wealth persisted, and soon the IMF found itself in an existential crisis: the developed economies, which had most of the decision-making power in the IMF, were increasingly cash-strapped and incapable of increasing IMF liquidity. At the same time, capital-surplus countries of the predominantly emerging market economies, especially in Asia, were distancing themselves from the IMF and self-insuring against speculative currency attacks (increased market volatility caused by the sudden acquisition of currency by previously inactive investors) by swelling their own currency reserves.

This global imbalance of savings was now coupled with the loss of IMF legitimacy in the eyes of emerging market economies and with the attempts by developed economies to preserve their remaining power in global economic governance. Indeed, it was during this same period of IMF decline that dynamic emerging economies began to consider regional alternatives to the Fund. The IMF, caught in the middle of these sweeping forces and self-interested state actors, was deemed by influential actors as irrelevant. At one point in the mid-2000s, there were even fears that the interest earned on IMF lending would no longer cover the Fund's operational costs. Its irrelevancy was further compounded by many countries' abilities to bypass the IMF and raise funds on capital markets without having to comply with the detested IMF conditionality. Financial policies and reform efforts previously funded by the IMF, such as emergency financing to correct trade imbalances or to meet loan commitments, could now be funded by a country's ability to attract global investment, thus eliminating the need to borrow from the IMF and undermining its role in global financial management. This crisis of confidence in the IMF was, however, short lived.

The international financial crisis that began in 2007–08 re-energized the IMF as the provider of ideas, policy coordination, surveillance, and catalytic financing. Moreover, the newly established G20 reaffirmed the central place of the IMF in governing the global economy. Originally gathered in 1999 as a meeting of finance ministers from the world's most powerful states (i.e. United States, China, and Germany), the G20 was convened in Washington as a leader's summit during the onset of the 2008 financial crisis by President George W. Bush, and today continues its work of coordinating global regulatory reform and economic stimulus. The G20 recognized the need for improved global economic surveillance, and it reinvigorated the IMF with an expanded mandate, new resources, and, most importantly, a renewed governance reform agenda. The Fund was now asked to facilitate and support the coordination of the macro-economic policies of the world's pre-eminent economies, and the accountability of these countries to agreed-upon norms and policy commitments. Further, the Fund extended its surveillance role in developed countries, in assistance with the newly empowered Financial Stability Board via its Financial Sector Assessment Program.

The institutionalization of the IMF emboldened it to monitor the pulse of the global economic system. Its once backseat role in observing the workings of the global economy has developed into that of a rule-making and norm-setting crisis manager entrusted with promoting economic growth, foreseeing global economic instability, and being a first responder to global economic crises.

Current debates

With great power, however, comes great responsibility, and the IMF is currently grappling with a number of issues that are of great debate both inside and outside the Fund. Not an easy task, the IMF must balance the needs and realities of member states, the best practices found in the economic discipline, and the hard global economic realities that challenge global economic stability. At the forefront of current debates facing the IMF are issues of capital account liberalization and flows; surveillance and crisis prevention; and transparency and its relationship with civil society. This section reviews each of these debates.

To begin, capital liberalization—the process whereby government regulation on inflows and outflows of capital is relaxed or eliminated in order to stimulate economic growth—has become an increasingly prevalent phenomenon in the globalized market economy. With the Fund at the helm of the global norm-setting system, states were advised to liberalize the entry and exit of capital to spur savings, promote investment, and diversify economic growth. Yet, the question remains: How would this powerful force of capital flows be governed given its inherent lack of regulation and governance? As Rawi Abdelal argues, a tension existed, first, between American views of ad hoc globalization that preferred to see private markets and actors shaping the future course of financialization (White's legacy) and, second, the European view of entrusting the IMF and other international organizations with managing the influx of capital in globalized financial systems (Keynes' legacy).[2]

For analysts and policy-makers alike, the global financial system became more complex and difficult to navigate. Nonetheless, despite the rising influence of private market actors, the IMF remained the locus of debate on the worthiness of capital controls, and, more importantly, on mapping the ebbs and flows of capital. With each subsequent financial and economic crisis, the IMF increasingly became the central node of managing capital flows and of providing solutions to the debilitating effects of "hot money" (capital that is transferred regularly between financial institutions by investors seeking to maximize interest from short-term gains) and financial contagion (the transition of financial shocks and crises from one economy to another). With the rise of global imbalances, the Fund was also tasked with the formidable challenge of coordinating macro-economic and exchange-rate policy between the world's systemically important economies in an attempt to unwind potentially destabilizing imbalances.[3] Its failure to do so is still being felt today.

In short, the growth in Fund access to data on capital flows and to policy-makers and market actors has increased its role in governing capital flows. Ironically, however, the pressure to liberalize capital came in part from the IMF itself: in its loan conditionality with developing countries and emerging market economies, and, to a lesser extent, from the dominant neoliberal economic discipline and its emphasis on free markets and trade liberalization. As the economic crises of the late 1990s and 2000s continued to cripple countries that were experiencing rapid capital outflows and countries experiencing massive capital inflows of "hot money," the IMF attempted to take a middle road approach. Nevertheless, there is a feeling that the IMF still prefers to endorse the concept of capital liberalization, even for countries where such measures may not be appropriate, and that it only grudgingly accepts government attempts to regulate capital flows if the latter can withstand IMF pressure.[4]

Surveillance and crisis prevention are frequently viewed as the issue areas that are the cornerstone of IMF work. All IMF members are obliged to meet the terms of the Fund's Articles of Agreement, which require IMF staff surveillance annually and periodically in the interest of preventing crises, limiting crisis spillover, and advising corrective measures to promote global economic growth and financial stability. The Fund conducts consultations with all IMF members and, with their consent, releases bilateral surveillance reports to the public. Moreover, it composes regional surveillance reports, called *Regional Outlooks*, which are meant to provide an integrated snapshot of regional economic dynamics. Lastly, the IMF produces a global report called the *World Outlook*, which attempts to assess the opportunities and challenges of the global economy. For the IMF, the work of surveillance and crisis prevention is tremendous and not without difficulty. Yet, despite the abundance of information that IMF staff have at their disposal, the Fund has effectively failed to predict and warn of looming crises. In some cases, small warning bells of trouble had rung, but these failed to alert economic systems in time to cope with the often-drastic change of events. Again, in failing to predict imminent crisis through its surveillance mechanisms, the very legitimacy of one of the key roles of the IMF is undermined.

The IMF surveillance function and its role in global financial governance have also been confined by political capture. The challenge, historically, has been that powerful countries—namely, advanced industrial economies—have often ignored IMF surveillance advice, while weaker, indebted countries that requested funding were mandated to adjust their policies to suit IMF conditions. Powerful IMF members also remain the primary benefactors of the organization, given their contribution of the largest share of financial deposits to the Fund. Moreover, these members provide the largest national contingency of IMF staff and the strongest ideological support for IMF paradigms. Most importantly, they hold the greatest decision-making weight on the Executive Board. Nonetheless, the entrenchment of these powerful IMF players has recently been put to the test, and not all may emerge unscathed.

With the onset of the international financial crisis in 2008, it became clear that the advanced industrial economies were not nearly as stable as previously thought. Similarly, it became apparent that financial markets were subject to market failures to an extent not previously believed. More importantly, core industrial states' policies had enormous ramifications on other economies such that contagion became a reality of globalized banking and financial markets. Advanced economies were now seen as "systemically important" countries that could potentially undermine the global economy, and therefore, despite not being traditional IMF borrowers, many argued that these economies should not escape IMF oversight. To address these concerns, the G20 strengthened the IMF surveillance mechanism by requiring all IMF members to complete Financial Sector Assessment Programs (FSAPs) supervised by the IMF. The G20 also created the Financial Stability Board (FSB) to coordinate with IMF advice on weaknesses in the financial, banking, and economic system. While strengthening IMF surveillance has been a process in the making, the 2008 financial crisis cemented the necessity of having the Fund, working in coordination with other multilateral organizations, by ensuring a universal and systemic approach to governing the flow of capital, banking systems, and exchange-rate policies.

Finally, the IMF is grappling with determining how deeply it should go in its relations with member states. While the IMF is accountable to state governments, it must also be sensitive to the fact that state governments ought to be accountable to their people. Although such accusations seem outdated and exaggerated, the Fund has been repeatedly criticized for dealing with corrupt and undemocratic governments. Indeed, many of the IMF's borrowing clients were also autocratic regimes, especially from the 1970s to the 1990s. The Fund soon realized that member governments that failed to implement IMF policies were also unable to implement IMF programs for lack of country ownership. This meant many of these members were in perpetual IMF loan rescheduling cycles and remained heavily indebted. As more countries within the global community, influenced by NGOs and civil societies, realized that debt relief for its poorest members could be an opportunity to call for political accountability, the IMF entered the uncharted waters of calling for good global governance and applying its own advice to internal good governance and corporate best practices.[5]

Moreover, IMF calls for transparency in member states pushed civil society to similarly call for Fund transparency in its dealings with member states. The IMF has responded positively by opening its doors to civil society organizations at its annual meetings, in its support for the Independent Evaluation Office (an internal, independent IMF watchdog), and in its regular consultation with civil society in member countries on its relationship with member states. While some critics argue that this is window dressing at best, at the very least it can be said that the IMF is changing its access to information policies and its rhetoric on the role of civil society in order to enhance its accountability measures, and arguably its interactions with borrowing states have expanded to include a variety of new actors or new working relationships with them. These include parliamentarians, NGOs, media, academics, think tanks, and labor organizations.[6]

Key criticisms and emerging issues

This section provides detailed discussion of the key criticisms and emerging issues currently facing the IMF, all of which involve the central problems with which the Fund must contend in its efforts toward effective global financial governance: first, how to reform the IMF in order to keep pace with the changing realities of the global economic system and, second, how the Fund should contend with the proliferation of actors and sites of authority that have emerged on the global scene.

As global economic power has become diffused and as it has shifted from the industrialized, developed, Group of 7[7] toward the emerging market economies—including Brazil, Russia, India, and China (the BRICs) and the new expanded membership of the G20—the question of how to reform the IMF such that it better reflects this shift in global economic power is a key concern of IMF stakeholders. This question of reform raises another tension evident in the IMF itself—namely, that even as the organization's authoritative power as a key knowledge actor increases in the realm of global economic governance, it is also generating ideas on policies that are no longer under the complete control of powerful members states. The policy outcomes of an increasingly autonomous and emboldened IMF vis-à-vis a diffused political and economic system of power remains to be seen, and merits greater academic attention and study.

One key criticism faced by the IMF concerns its close relationship with certain member states, despite more recent attempts at accountability and transparency. Shortly after its inception, the G20 encouraged the IMF to meet the short-term liquidity needs of the emerging market economies with a fast disbursing credit line that had no conditionality attached. In response, the Fund created a new Flexible Credit Line (FCL) and the new Precautionary Credit Line (PCL) to provide timely and uncapped access to IMF resources to countries that had been preapproved for financing. Much like when countries affected by the 1997 Asian crisis resorted to using contacts in the US Treasury Department to pressure the IMF to expedite its loan process, it has been pointed out that the countries seeking FCL arrangement were, notably, US geopolitical allies.

Moreover, while the Fund should be commended for reacting quickly to the 2008 international financial crisis with the FCL and PCL, the question remains as to whether the IMF has learned from its past failures. Specifically, throughout the Asian crisis, the IMF failed to instill confidence in Asian economies and precipitated the crisis further via its strict conditionality requirements. Indeed, many Asian countries have asked the Fund to acknowledge its past failure in Asia as an important confidence-building measure toward IMF reform. This apology was never formally made, although assessing the needs of Asian countries and renewing their good faith in the IMF should be a top priority given the Fund's mandate of global financial governance. As it stands, however, the question of whether the damage done is so deep that only a regional fund will serve to allay the fears and meet the needs of the Asian countries—for example the Chiang Mai initiative—remains an open one.

In addition to the new credit lines, the IMF was also tasked with coordinating the newly transformed FSB. By drawing on its universal membership, the IMF assisted the FSB, helping it to expand its limited membership base to include the G20. Unlike the IMF, the FSB lacks an organizational structure and a sizeable support staff. However, the FSB's interaction with senior policy-makers and regulatory supervisors serves as part of a useful feedback loop into IMF surveillance exercises, including the above-mentioned World Economic and Regional Economic Outlooks reports, and bilateral Article IV Consultations. Nonetheless, noting the parallels between FSB and IMF functions, the G20 has asked both organizations to promote added cooperation and inter-organizational communication. The FSB and the IMF could then, for example, work to develop early warning exercises against financial systemic risk and develop a regulatory standard that would keep financial institutions, including hedge funds, in check. We now turn to an in-depth discussion of the IMF's renewed and expanding mandates.

Perhaps the greatest endorsement of a further institutionalization of the IMF mandate occurred when the G20 entrusted the IMF with the role of determining whether sound macro-economic and sustainable policies were being followed by its members, and "naming and shaming" those who failed to implement such standards in order to achieve compliance. Expanding on the IMF's traditional surveillance function, the G20 proposed a document entitled *Framework for Strong, Sustainable, and Balanced Growth*. This loose agreement gave the IMF an added hand in independently intervening in countries that put the international economic system at risk by mismanaging their economic policies. To operationalize the Framework, the G20 created the Mutual Assessment Process (MAP)—an innovative part peer-review, part multilateral surveillance governance mechanism. IMF staff were tasked with supporting the MAP to help deepen global macro-economic policy coordination. This process is designed to bypass the IMF's Executive Board in order to prevent an added layer of politicization of the staff's research and recommendations, and represents a significant increase in the IMF's independence and authority.

Following this move for G20 cooperation on shared policy objectives and medium-term policy frameworks, G20 leaders also allowed IMF staff to, in effect, assess countries' progress against an agreed-upon set of "indicative guidelines."[8] Moreover, G20 members must now submit themselves to the IMF–World Bank FSAP, a move that expands existing FSAP purview to encompass all of the G20, notably the United States, which prior to the international financial crisis had not accepted FSAP reviews.

Given the Fund's renewed mandates, the international community is trusting that the IMF will play its intended role as a "ruthless truth-teller," in the words of IMF co-creator John Maynard Keynes. But this arrangement is problematic to say the least. For example, while in April 2011 G20 and IMF staff agreed to policy targets that members could strive for and that the IMF could assess and monitor, these remained shielded from the public and market actors such that there was no external monitoring of the process. Thus, the politicization of the IMF remains a real issue.[9]

The second means of reinvigorating the IMF came with a series of decisions beginning in 2009 to drastically increase the Fund's lending capacity. The first of these was a one-time allotment of SDR 250bn—by far the largest ever such allotment—designed to boost global liquidity at a time of severe malfunctioning in global money markets. The G20 and other prominent economies also moved to bolster the Fund's short-term lending capacity by agreeing to an expanded New Agreement to Borrow (NAB). This decision effectively tripled the Fund's lending capacity to well over SDR 500bn. Finally, in April 2012 the G20 (with the exception of Canada and the US) announced its commitment to add an additional SDR 277bn to the Fund's capital structure. It is important to note, however, that throughout this process of increased IMF lending capacity, the rising powers, symbolized by the BRICs, have been reticent about providing funds directly into the IMF coffers without first receiving guarantees of meaningful voice and governance reforms.

Given that among the G20 consensus has been to keep IMF quotas as a reflection of contribution to the world economy, the case remained that rising economic powers were still highly underrepresented in quota strength and, therefore, in political strength at the IMF. IMF governance reform therefore involved reallocating quotas to give rising powers more decision-making power by reconfiguring the Executive Board. Voice and governance reforms began in 2008 with the decision to implement quota increases for 54 emerging economies, as well as reforms aimed at improving the participation of low-income countries in the Fund's decision-making process. However, unsatisfied by these modest gains, the BRIC nations were quick to assert their newfound influence in the IMF by demanding that any further expansion of IMF resources be tied to additional governance reform. For example, China's assistant finance minister, Zhu Guangyao, recommended rebalancing the IMF by transferring voting weight from the developed countries (which had 57 percent of voting rights at the IMF and 56 percent of voting rights at the World Bank) to the developing countries (which had 43 percent and 44 percent of voting rights at the IMF and World Bank, respectively). China and the remaining BRICs also proposed that the IMF transfer 7 percent of traditional powers' quota share to the rising powers. In response, the G20 offered a shift of 6 percent of quotas from overrepresented countries to underrepresented countries—in effect setting in motion a movement of quotas from the European countries to the emerging economies.

Representation, however, remains a deep-seated problem for the Fund, and the IMF Executive Board is antiquated, to say the least. This board's outdated composition and overly broad scope of activities have garnered criticism from many stakeholders. In particular, pointing to the overrepresentation of European states on the Board (8 seats out of 24), proponents of Executive Board reform have suggested eliminating appointed seats reserved for the largest contributors, thus making room for non-European countries. Some have pointed out that on legitimacy grounds, for example, it is undemocratic to have the BRICs, as members of the IMF, contribute significant funds to the IMF without having a corresponding share of decision-making power. Similarly, if the April 2012 commitment is approved, the absence of Canada and the US from the agreement will result in a significant departure from standard practice, with funding liabilities no longer being tied to quotas and voting rights. The new dynamic created by this shift in IMF governance warrants future research. Nevertheless, reforming the IMF Executive Board and the underlying quota system would improve IMF legitimacy and ultimately global financial governance.

Conclusion

In the aftermath of the worst global economic downturn since the Great Depression, the IMF has suddenly been reborn, or at least rejuvenated, and restored to its previous position as the crown jewel in the international financial architecture. Moving forward, the health of the international monetary system and the global economy will be tied to the effectiveness of the public goods provision provided by the G20—namely, the promotion of enhanced public goods, including environmental protection, technological development, and international security. Effectiveness will, in turn, be tied to the legitimacy of the institution that the G20 relies most heavily on to generate good governance in dealing with crisis and promoting macro-economic stability—the IMF.

This chapter has reviewed the key historical and contemporary challenges faced by the IMF. The institution's legitimacy has ebbed and flowed as it has dealt with persistent critiques of its policy prescriptions, ideological leanings, and internal governance practices—critiques that today are being made by an ever-broader constituency of stakeholders. The Fund has finally begun to accept and address many of these critiques and has made efforts to reform itself. However, much remains to be done. Sustained reform is a necessity, and if history is any guide the IMF will continue to institutionalize its role in governing the global economic system.

At the same time as the IMF's authoritative power increases, and as it becomes a key knowledge actor in global economic governance, many IMF ideas on policies can no longer be controlled by powerful members states. The recent empowerment of IMF staff through the G20 MAP—a framework through which G20 members collectively seek to identify, evaluate, and craft policy so that shared objectives for economic governance can be implemented—is an important example. The policy and political outcomes of an increasingly autonomous IMF and a diffused and more complex global system of power remain to be seen and merit greater academic study. This chapter has attempted a preliminary start to such a project.

Additional reading

1. James R. Vreeland, *The International Monetary Fund: Politics of Conditional Lending* (New York: Routledge, 2007).
2. James M. Boughton and Dominico Lombardi, eds., *Finance, Development, and the IMF* (London: Oxford University Press, 2009).
3. Mark Copelovitch, *The International Monetary Fund in the Global Economy: Banks, Bonds, and Bailouts* (Cambridge: Cambridge University Press, 2010).
4. Susan Park and Antje Vetterlein, eds., *Owning Development: Creating Global Policy Norms in the IMF and the World Bank* (Cambridge: Cambridge University Press, 2010).
5. Reuben Lamdany and Leonardo Maritnez-Diaz, *Studies of IMF Governance: A Compendium* (Washington, DC: International Monetary Fund, 2009).
6. Ngaire Woods, *The Globalizers: The IMF, World Banks and Their Borrowers* (Ithaca: Cornell University Press, 2006).

Notes

1 With GDP itself measured as a blend of a member country's market exchange rates (60 percent) and its purchasing power parity exchange rates (40 percent), defined as exchange rates that take into account the prices of goods in each country's economy in order to obtain prices unaffected by financial market fluctuations.

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3 Mark Copelovitch, *The International Monetary Fund in the Global Economy: Banks, Bonds and Bailouts* (Cambridge: Cambridge University Press, 2010).

4 Pardee Center, *Regulating Global Capital Flows for Long-run Development* (Boston: Boston University Press, 2012).

5 Ngaire Woods, "Making the IMF and the World Bank More Accountable," *International Affairs* 77, no. 1 (2001): 83–100.

6 Jan Aart Scholte, *Building Global Democracy? Civil Society and Accountable Global Governance* (Cambridge: Cambridge University Press, 2011).
7 Or G7, comprised of finance ministers from the powerful industrialized nations of the United States, Japan, Germany, Britain, France, Canada, and Italy.
8 International Monetary Fund, *Review of the Fund's Involvement in the G20 Mutual Assessment Process* (Washington, DC: International Monetary Fund, 2011).
9 Domenico Lombardi, "Washington Roundtable on the Global Economic Agenda," (Washington, DC: Brookings Institution Press, 2009), http://www.brookings.edu/~/media/research/files/papers/2009/10/global%20economy%20lombardi/10_global_economy_lombardi.pdf.