The G20 has served its purpose and should be replaced

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The G20 is neither legitimate nor effective in regulating the world economy. It should be replaced it with a properly constituted global economic council.

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AN ALTERNATIVE TO THE G20

The G20 at finance ministers' level was born in 1999, and elevated to state leaders' level in 2008 – both happened in times of crises. As a temporary, hastily cobbled-together forum for seeking cooperation between major states it has served a useful purpose. But both the process by which its member states were selected and the outcome of that selection fall far short of widely accepted criteria of representational legitimacy. Moreover, membership is permanent, with no rotational mechanism, implying that 174 of the UN's 193 states – 90 % – can never be members. Current efforts to soften the exclusion by incorporating a few regional organizations are insufficient.

In this policy brief we go beyond tinkering, and propose a blueprint for what we call a Global Economic Council on a firmer constitutional foundation. Criticism of the G20 – whether in terms of its lack of representational legitimacy or its limited effectiveness in dealing with global economic governance issues – is often met with 'there is no alternative'. Given the G20's obvious flaws, this is a counsel of despair. The world community can certainly do better in the way it governs itself.

INTRODUCTION

The fact that the G7 countries now feel inclined to consult systematically with dynamic emerging market economies certainly constitutes progress in global governance. As economic multipolarity increased, as some developing countries grew to the point where they reached systemic

POLICY RECOMMENDATIONS

- The G20 grouping of developed and developing country governments marks a big improvement on the G7 and G8 forums (though it has not replaced them) – but it is unsustainable as a global governance body, above all because it is a self-selected oligopoly. With 174 member states of the United Nations permanently excluded or only marginally included, it fails to meet widely accepted criteria of representation.
- A sustainable global economic governance body should be created by starting from the constituency system of the Bretton Woods organizations (World Bank and IMF). This system contains a representational mechanism incorporating all the member states. However, it has some eviden flaws. We describe how it should be modified to make it more equitably representative. All three bodies should then have the same constituencies.
- The primary criterion for allocating places and votes in the unified constitutency system should be relative Gross Domestic Product (measured with a blend of GDP at market exchange rates and GDP at purchasing power parity, designated here as GDP). This reduces the scope for major states to manipulate the system so as to squeeze in allies and exclude enemies.
- With its constituencies being congruent with those of the Bretton Woods organization, the proposed Global Economic Council would have stewardship of the Bretton Woods organizations, enabling it to move beyond the current G20's 'talk shop' role.
- At the same time, its mandate should go beyond that of the Bretton Woods organizations, to include issues such as trade, labour, industrial policy, social, environment. Building on the existing Bretton Woods architecture is a more promising direction of travel than trying to make the United Nations' Economic and Social Council (ECOSOC) fit for purpose.

or near-systemic economic weight, so the development of some form of expanded deliberation and dialogue became essential for global economic governance. Otherwise the G7 would be like the captain of a ship who stands at the wheel turning it this way and that – knowing that the wheel is not connected to the rudder.

However, there are several reasons why the G20 was the wrong form of multipolar deliberation. First, it reinforces a troubling trend towards 'oligarchy-of-the-big', by which the vast majority of nations lose voice and influence on matters that affect them crucially because not incorporated into any representational system. Second, the G20 effectively undermines the existing system of multilateral cooperation in organizations such as the IMF, the World Bank and the United Nations, causing resentment towards the G20 in those organizations in general and among non-G20 countries in particular. Thirdly, the G20 is just a 'talk shop'. There are good reasons to aspire to an apex governance body with some implementation capacity, such as through stewardship of the Bretton Woods organizations.

The Bretton Woods system of representation has the big advantage of being well-accepted over many decades of operation; but it also has significant flaws. First, it has no Heads-of-State forum, an absence which causes the Bretton Woods organizations to suffer from lack of political weight. Second, its system does not adequately recognise the increased economic and political weight of dynamic emerging market economies, even after the 'voice reforms' of 2010.

So, the way forward is to reform the Bretton Woods organizations' representation system so as to allow them to operate effectively as pillars in a multilateral system of global economic governance under the stewardship of a Global Economic Council. The three key reforms are:

- creation of a Leaders forum, the Global Economic Council
- reform of the voting power system of the Bretton Woods organizations
- reconfiguration of their system of country constituencies.

ESTABLISH A GLOBAL ECONOMIC COUNCIL

The key task of the Global Economic Council would be to act as steering committee of the global economy. The Council should consist of 25 country constituencies, in an arrangement similar to that of the Boards of the IMF and the World Bank, with procedures for consultation and rotation to ensure that all member countries have a voice in the process in proportion to their GDP. A Global Economic Council based on country constituencies – with the relevant 25 Leaders meeting at least twice a year on the basis of prior consultation with their country constituencies – would have the benefits of multilateral legitimacy and the advantages of being embedded in the existing institutional framework of the IMF and the World Bank.

REFORM THE EXISTING VOTING POWER SYSTEM

The current voting power system of the Bretton Woods organizations does not adequately reflect the geopolitical realities of the world economy. The oft-cited principle that voting power in the Bretton Woods organizations should reflect countries' economic weight in the global economy is honored more in the breach than in the practice. In both the World Bank and the IMF a range of criteria other than weight in the global economy – such as degree of 'openness' and 'economic variability' and amount of international reserves in the case of the IMF – has been used in calculating the voting power of member countries. The resulting calculation is not only complex and untransparent, it also contains arbitrary and manipulatable weightings.

A cleaner, more transparent voting power formula would base voting power on GDP: countries have a share of total votes equal to their share of world GDP. This is the best way to ensure that relative voting power changes in line with the changing distribution of relative economic weight.

REVISE SYSTEM OF COUNTRY CONSTITUENCIES

To repair the existing configuration of country constituencies in the World Bank and the IMF, new principles should be applied both to the allocation of chairs among regions and to the allocation of chairs within regions.

The first principle of chair allocation among regions should be to achieve reasonable representation of all the world's main regions. We propose basing global economic governance arrangements on four main regions: Africa; Asia; Americas and Australasia; and Europe. Sixteen seats on the council should be distributed evenly among each of these four main regions; four for each region.

> The categorization of countries above is based on UN statistics, which divides the world in five regions: Africa, Asia, the America, Europe and Oceania. The latter of these regions, Oceania, is integrated in two of the other regions, namely the Americas and Asia. Oceania consists of Australia, New Zealand, Norfolk Islands and three groups of island states: Melanesia, Polynesia, and Micronesia. Taken together, Australia, New Zealand, Norfolk Island and the Melanesian islands are known as Australasia. This part of Oceania is combined with the Americas, whereas Polynesia and Micronesia is considered part of the Asian region. For a full list of countries by region, see Vestergaard (2011b).

The second principle should be to allocate chairs by economic weight. We propose that nine additional seats are assigned to the four regions in proportion to their share of World GDP. Today this would mean that all four regions except Africa get three additional seats. Together, the application of these two principles would give Africa four seats and the three other regions seven seats each. (The size of the membership should not exceed about 25 seats, the current size of the boards of the Bretton Woods organizations. Beyond about 25 the body becomes a platform for declarations rather than a forum for deliberations.)

Table 2: GDP and allocation of seats in revised Bretton Woods system

	GDP (pct. of total)	GDP seat indicator	Allocation of GDP seats	Regional seats	Total number of seats
Africa	*3.23*	*0.30*	*0*	*4*	*4*
Americas & Australasia	*34.54*	*3.11*	*3*	*4*	*7*
Asia	*33.68*	*3.03*	*3*	*4*	*7*
Europe	*28.55*	*2.57*	*3*	*4*	*7*
Total	-	-	*9*	*16*	*25*

The allocation of chairs within the four regions should be based on two principles. First, country constituencies should have elected chairs, with a minimum size of three countries per constituency. This breaks with the current mixed-system of five appointed chairs and nineteen elected chairs. Second, all chairs should involve a mechanism of rotation to ensure consultation and dialogue within constituencies. Each constituency could have one Director and two Alternates, and decide internally whether there should be rotation on both levels or only at the level of Alternates. This flexibility in rotation modalities would allow large economic powers – such as the US and China – to maintain directorship of a chair, while ensuring consultation with countries in their constituency through the system of Alternates.

THE WAY FORWARD

The way forward in global economic governance is to revise the existing Bretton Woods system in a manner that addresses its weaknesses and makes it automatically responsive to changing economic weights. We have outlined three essential reforms. First, a Leaders' forum, based on the voting power and country constituency system of the Bretton Woods organizations; to be called the Global Economic Council. Second, reform of the voting power system of the Bretton Woods organizations, to bring voting power into alignment with economic weight of member countries. Third, reform of the country constituencies of the Bretton Woods organizations, to ensure a more balanced representation of the world's main regions. Such a reconfiguration has several advantages:

- It embeds a Leaders' forum within the institutional framework of the existing Bretton Woods organizations while at the same time bringing the latter up to date.
- It gives the Leaders' forum direct implementation capacity through its stewardship of the Bretton Woods organizations.
- It reconfigures the current country constituencies so that all chairs represent at least three and no more than 16 member countries (thus eliminating unviably large constituencies of 20 or more countries)
- It gives long-term durability to global economic governance by being responsive to the rise and fall of nations – in and through a transparent, automatically updated system of weighted voting (based on GDP) – while ensuring at the same time interregional legitimacy by means of the proposed balanced allocation of chairs to the world's main regions.

For a detailed description of how the proposed Global Economic Council should be organized, also read the DIIS Policy Brief "Creating a Global Economic Council: Six easy steps", by the same authors.

FURTHER READING

Vestergaard, J. and Wade, R. (2011). "Adjusting to multipolarity in the World Bank: Ducking and diving, wriggling and squirming", *DIIS Working Paper*, 2011:24, Copenhagen: Danish Institute for International Studies.
Vestergaard, J. and Wade, R. (2011). "The new Global Economic Council: governance reform at the G20, the IMF and the World Bank", *DIIS Working Paper*, 2011:25, Copenhagen: Danish Institute for International Studies.
Vestergaard, J. and Wade, R. (2011). "Creating a Global Economic Council: Six easy steps", *DIIS Policy Brief*, October 2011.

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