WIDER

STUDY GROUP SERIES
No. 4

World Economic Summits:
The Role of Representative Groups in the
Governance of the World Economy

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OF THE UNITED NATIONS UNIVERSITY

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World Economic Summits: The Role of Representative Groups in the Governance of the World Economy

Report of a Study Group of the World Institute for Development Economics Research (WIDER), Helsinki, Finland, of the United Nations University (UNU), Tokyo, Japan.

Members*:

Sukhamoy Chakravarty, Professor of Economics, Delhi School of Economics, University of Delhi; Chairman, Council of Economic Advisers to the Prime Minister of India

Enrique Iglesias, Minister of Foreign Affairs, Uruguay; former Executive Secretary, Economic Commission for Latin America (ECLA)

Lal Jayawardena, Director, WIDER

Stephen Marris, Senior Fellow, Institute for International Economics; WIDER Research Adviser; former Economic Adviser to the Secretary General of the OECD

Robert McNamara, former President of the World Bank

Philip Ndegwa, Chairman, First Chartered Securities Limited; former Governor, Central Bank of Kenya

Saburo Okita, Chairman, Institute for Domestic and International Policy Studies; Chairman of the Board of WIDER; former Foreign Minister, Japan

Soedjatmoko, former Rector, United Nations University

Brian Urquhart, Scholar in Residence, Ford Foundation; former Under-Secretary-General for Special Political Affairs, United Nations

Johannes Witteveen, Adviser to the Board of AMRO Bank, Amsterdam; former Managing Director of the International Monetary Fund

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Helsinki, Finland

* The members of the Study Group have participated in its work in their personal capacities.

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WORLD ECONOMIC SUMMITS: THE ROLE OF REPRESENTATIVE GROUPS IN THE GOVERNANCE OF THE WORLD ECONOMY

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Preface

There has been, in recent months, a chorus of voices calling for a World Economic Summit. They have included the Secretary-General of the United Nations, Mr. Javier Pérez de Cuéllar;[1] the Former Chancellor of the Federal Republic of Germany, Mr. Willy Brandt,[2] and most recently, the Foreign Minister of Norway, Mr. Thorvald Stoltenberg.[3] A key question to be resolved is precisely how participants in such a Summit should be chosen. While in Mr. Brandt's view, "it should not be too difficult to decide" who will represent the North, since the "ranking is quite obvious", his pointed question remains: "But who could represent the South?"[4] This question is particularly important because a major objective of the proposal, as set out by Mr. Stoltenberg, for instance, is to bring about an improvement in the coordination of global macroeconomic policies.[5]

This Study Group Report seeks to resolve this dilemma in an entirely objective manner. First, it recognizes that today it

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[1]The Secretary-General of the United Nations, Javier Pérez de Cuéllar, *Address to ECOSOC,* 8 July 1988, Geneva.

[2]Willy Brandt, *The World, Ten Years after the Brandt Commission,* Paper prepared for the "International Symposium on the Crisis of the Global System" organized by the Vienna Institute for Development and Cooperation, September 29, 1988, Vienna.

[3]Thorvald Stoltenberg, *Towards a World Development Strategy Based on Growth, Sustainability and Solidarity: Policy Options for the 1990s,* Report presented to the OECD Development Centre 25th Anniversary Symposium, 8 February, 1989, Paris.

[4]*op.cit.* Willy Brandt.

[5]Mr. Stoltenberg's proposal was expressed as follows: "I believe there is a growing need for a more binding international cooperation in the 1990s. A North-South summit under the aegis of the UN could explore the basis for a more effective system of global macro-economic coordination between industrialized and developing countries". In contrast, the only North-South Summit held so far, at Cancun, Mexico in 1981, was inspired by a suggestion of the Brandt Commission and dealt with more traditional trade and aid-related issues.

is not the South that is the counterpoise to the North. The centre of gravity of world economic power resides in a particular subset of the North — specifically in the five principal Summit countries, the United States, Japan, The Federal Republic of Germany, France, and the United Kingdom. Second, the logical counterpart of this subset is the rest of the world — all countries other than the Summit Five. What is needed is a method of bringing about a coalition between the smaller industrial countries and the South, so that the 'Non-Five' can delegate authority to a small representative group which would participate on its behalf in a World Summit. Our Report starts from the premise that meetings of twenty people or more usually end up by participants making speeches at each other — a multilateral monologue of the kind that has characterized many meetings of the Interim and Development Committees of the Bretton Woods institutions. The effective exercise of peer group pressure, leading to genuine dialogue and a changing of minds in response to reasoned argument, requires a smaller group.

What is being suggested here is that IMF member countries other than the Summit Five could start to build an organization where they would elect to group themselves into no more than ten constituencies, and preferably only seven, with the Soviet Union as an additional member (participating as an observer at the outset) at such time as she joins one or other of the multilateral economic institutions. Each constituency would be represented, by a head of state or minister of a member country. Of course, the possibility of rotation would be built into the arrangements for setting up such a "Group of the Non-Five". Countries would acquire voting rights for this purpose based upon three objective criteria reflecting their economic and political weight in the world — GNP, trade and population.

The particular voting formula chosen has the merit that when applied to the current IMF membership, the distribution of votes between the developed and the developing countries — in a ratio of 60 to 40 — coincides with the present distribution of voting power in the IMF. This is assumed to be a reasonably accurate reflection of today's economic and political realities, and responds in an objective way to Mr. Brandt's concern about how the South might be represented. The formula suggested, in fact, gives a weight of 45 per cent to a country's share in world GNP expressed in terms of purchasing power parities, 45 per cent to its share in world trade, and 10 per cent to its share in world population.

The proposal would have to be worked out in a political process which would require an informal initiative by a group of influential Non-Five countries whose composition would have some overlap, if not rough correspondence with, that of an eventually more formal Governing Body of the Group of the Non-Five. Its task would initially be to coordinate positions on key policy issues and articulate them in the multilateral institutions, and later to initiate contacts with the Summit Five. For example, such an informal group could involve three European countries, three Asian, two Western Hemisphere countries, one African and one Middle Eastern country.

Thus a coalition of interests would be created between the developing countries and the smaller industrial countries, which would reach a consensus on the principal international economic issues and urge this viewpoint on the Five Summit countries whenever the occasion arises. The inclusion of Canada and Italy in this design in both the G7 and the Group of the Non-Five is intended to facilitate the process of two-way communication, just as the eventual aim of the Group of the Non-Five would be to make itself redundant, once a truly international process of economic decision making were established. For the ultimate objective of the exercise is to breathe new life into the multilateral institutions which today have handed down to them decisions that are taken at meetings of more limited groups of countries — sometimes the G2, sometimes the G5 and sometimes the G7. Indeed, it has been maintained that the G7 today enjoys an effective veto power over the issues that can be usefully discussed within the Executive Boards of the Fund and the Bank. Decisions taken within the G7 are viewed as pre-empting the reopening of decided issues when the Governing Boards of the Fund and the Bank meet, so that countries excluded feel that they have no effective contribution to make.

The development of a formula whereby the Non-Five can organize themselves effectively to meet with the Five is also, in this design, expected to lead to a body that would bridge the divisions tending to emerge today with the breaking up of the world into several regional blocks, each of which would begin to constitute in time a separate pole of growth. Such regional blocks now account for 90 per cent of world GNP and unless the low-income countries which are excluded, principally those in Africa, are able to devise ways of relating to a larger block, there is a real risk of their being relegated into an increasingly pauperized Fourth World with few linkages to growth impulses emanating from outside.[6] It is imperative, therefore, that a political body emerges which would cut across today's regional blocks so that the development of a single viewpoint on key global economic issues can contribute to better decisions at joint meetings with the key Five Summit Countries.

The design summarized above also raises important questions as regards the manner in which the work of the wider UN system outside the Bretton Woods organizations and GATT might be organized in the future, and our Report has suggestions to make in this area as well. These relate to the possible extension of constituency based voting procedures on the Group of the Non-Five model, and the resort to small representative groups for the negotiation of specific issues in order to facilitate unanimous decisions within defined time frames.[7]

The viewpoint developed in this Report goes back to a meeting organized in WIDER in March 1986 of the 'Middle Powers',[8] the larger countries of the South and the smaller countries of the North, which invariably come together in the last twenty-four hours of international conferences to work out the necessary compromise resolutions, but which rarely coordinate positions at the outset. It is based upon two papers — one by Stephen Marris on the Group of the Non-Five, included as Appendix A; and one by myself on Improved Decision-Making in the non-Bretton Woods part of the UN System, included as Appendix B. I am grateful to Robert

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[6] Ferdinand Van Dam, *The formation of economic blocs, the conclusion of agreements between them and what happens to the countries not involved.* A paper presented to the 25th Anniversary Symposium of the OECD Development Centre, Paris 6–8 February 1989. See also H.R.H. Prince Claus of The Netherlands, *Address to the Annual Sessions of the Society for International Development,* New Delhi, 25 March 1988.

[7] See Appendix B, in the paper by Lal Jayawardena entitled *Towards Improved Decision Making in the United Nations System.* This paper was presented at an informal meeting on "Revitalizing the North-South Dialogue" convened by Mr. Jean Ripert, Director-General for Development and International Economic Cooperation, United Nations, 13–14 January, 1989, New York.

[8] The meeting comprised senior officials and academics from 15 developed and developing countries to explore possible areas of mutual interest among medium-sized economies. It took place at Helsinki on 24–26 March 1986 under the Chairmanship of Mr. Enrique Iglesias, Foreign Minister of Uruguay.

Pringle, Senior Fellow at WIDER, for his help in the drafting of this Study Group Report, and in superintending the various processes leading up to publication.

The Study Group format in which WIDER presented its ideas on the recycling of the Japanese surplus[9] was found helpful in ensuring their dissemination, and in catalysing a policy debate around them which has led to subsequent action. If the present Report, which carries the unanimous endorsement of the Members of the Study Group, were to stimulate enough interest in its ideas among key Non-Five countries and thereby help launch the informal political process I have described, it will have served a useful purpose.

Lal Jayawardena
Director

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[9]WIDER Study Group Series No. 1 *The Potential of the Japanese Surplus for World Economic Development,* Helsinki 1986; WIDER Study Group Series No. 2 *Mobilizing International Surpluses for World Development: A WIDER Plan for a Japanese Initiative,* Helsinki 1987. Both Study Groups comprised Saburo Okita, Chairman, Lal Jayawardena and Arjun Sengupta.

WORLD ECONOMIC SUMMITS

Executive Summary

The recent past has witnessed a major erosion of the authority of the multilateral institutions charged with the governance of the world economy. Key decisions, whether on the debt problem, the setting of international exchange rates or global macroeconomic policy coordination, are taken within a limited group of developed countries, the inner core of which consists of the G5/G7 countries.

Potential initiatives for imaginative international action, as for example those available to Japan, often tend to be stifled and muted in their public expression by the concerns of other members of this limited group. This has been the fate of Japan's initiative on developing country debt presented at the June 1988 Toronto Summit as the Miyazawa Plan.

Experience has shown, however, that when a significant group of countries is able to speak on key issues with a single voice, their viewpoint can be influential. By extrapolation it becomes plausible to argue that the creation of a group comprising all countries other than the five principal Summit countries — the Non-Five — on a basis where decision-making within the group is entrusted to a small governing body not exceeding ten or eleven members, and preferably only seven or eight, could facilitate the development of a single viewpoint on key international economic management issues.

What is needed is to develop a consensus between the developing and the smaller developed countries on a number of important issues. On some issues this consensus could well be significantly different from the policies which the G5 is pursuing or proposing. But the development of such policy positions, and the subsequent public discussion, would also frequently show that the G5 countries are not as unified in their approach as may often appear to be the case. A notable example could be that of an approach to the debt problem where a unified position by the Group of the Non-Five could provide a constituency, so to speak, for new thinking going on currently in some G5 countries, notably Japan. Another example is the existence of a viewpoint on approaches to a more durable set of international monetary and financial arrangements.

The development of such a consensus even on a limited range of issues would, nevertheless, take time to accomplish and we are conscious of the fact that many governments may have difficulty in starting to work immediately on a formal organization. Recognizing this, progress might be made initially through an informal representative group. This could be composed (as an illustration) of representatives of three European countries, three Asian, two Western Hemisphere countries, one African and one Middle Eastern country. If some representative countries from these groups would be willing to meet informally to see whether such a meaningful consensus could be achieved, this could be a good preparation for a more formal organization. It would be a trial run.

Assuming that such an informal group would succeed in reaching a meaningful consensus, this would already have an impact, if these governments and other governments in their group would strongly argue in favour of these views in the IMF and World Bank meetings. On the basis of such a success they could then start to build a more formal organization.

During this initial trial run, we envisage the group having its main influence in working through existing multilateral institutions: this would be in line with the main purpose of the whole exercise, which is to strengthen these institutions. But as the Group of Non-Five is able to build a more formal organization, it should seek annual meetings with the five key Summit countries. We suggest that these annual meetings could in time develop into, and be known as, an Interim World Economic Council. Initially, however, the Group of the Non-Five might merely designate two or three of its members to meet with the Five: these could be known as 'Working Summits'.

The following Study Group report examines ways in which the Group of the Non-Five might prepare itself for such joint meetings with the five principal Summit countries. It focuses on what the agenda of such meetings might look like and on possible voting procedures for determining the composition of the Governing Board of the Group of the Non-Five.

In the long run, the objective should be for this Interim Council to develop into a fully-fledged World Economic Council which would take on de jure *the responsibilities presently assumed by the Summit* de facto *(the Interim Council would be a joint forum for discussion, leaving decision-making to existing institutions). The Council would provide a vehicle through which further reform could be negotiated and would, eventually, also provide a political mechanism through which oversight could be exercised over a set of reformed global institutions.*

1. THE RETREAT FROM MULTILATERALISM

In recent years the process of international economic decision-making has been dominated by the Group of Five developed countries — the United States, Japan, the Federal Republic of Germany, France and the United Kingdom. The most important decisions affecting the development of the world economy have been arrived at in meetings of this group — at the level of finance ministers and officials — and to a lesser extent the Group of Seven (the Group of Five plus Italy and Canada). These meetings have laid down the main lines of international action and policy on, for instance, exchange rate management, the debt crisis, and the role of the SDR. These meetings gain further weight through their links with the annual Summit meetings of heads of state and government of the same seven countries.

This trend has inevitably eroded the position of the principal multilateral agencies for international economic cooperation, notably the International Monetary Fund. Certainly the IMF has played a key role in the debt strategy and has increased its authority over developing countries, but the crucial decisions shaping its policies have been decided at small, closed meetings of the big countries. This tendency has not necessarily in every policy area run counter to the interests of the other member countries of the Fund, as the agreements recently reached by the G5 and G7, notably on action to reduce exchange-rate fluctuations, may have been preferable from the developing countries' point of view to not having any agreement at all.

But it is clear that neither the developing countries nor the smaller industrial countries can be confident that their interests will be adequately taken into account by the big countries. Although G7 officials sometimes claim that they are aware of the interests and the concerns of the countries that are excluded, this is clearly not sufficient. Being groups of the biggest industrial countries, neither the G5 nor the G7 can really claim to represent the views of other coutries: developing countries with 40 per cent of the vote in the IMF are totally absent while Western Europe, with only 30 per cent of IMF voting power, has three out of five seats on the G5 and four out of seven in the G7 (all of course held by the biggest European countries). Moreover, it is only by participating fully in this decision-making process, as of right, that officials of the smaller countries, and of the international organizations concerned, can properly grasp the political obstacles to agreement, can see at close hand the stumbling blocks arising from differences on matters of fact and analysis, and can thus play positive, constructive — and quite often decisive — roles as "neutral" observers and intermediaries.

What is not so obvious is that the tendency to operate outside the multilateral institutions may well run counter to the long-run interests of the G5/G7 countries themselves. The Bretton Woods agencies owe their authority to the fact that they are the institutional embodiment of the shared conviction that the long-run interests of all members are best served by cooperation within a structured multilateral framework. At the time they were established after World War II, much of the world was in ruins, incontrovertible evidence of the cataclysmic effects of economic and political nationalism. But the founding fathers also believed that, for such cooperation to be sustained in the long run, it had to be guided by a set of rules — a code of good conduct — and these rules were embodied in the Articles of Agreement of the Fund (still in theory subscribed to by all its members). It is true that on the central issues of macroeconomic policy the rules were often broken when they became inconvenient to major players. But what distinguished that era of institution-building was, first, that countries agreed to adhere so far as possible to a system embodying a code of conduct largely written by another country, in exchange for a voice in the institutions that would monitor adherence to that code of conduct; while the United States, which had the main say in writing the code, was willing to work through cooperative institutions and consultative procedures rather than either to exert its will by brute force, as other powerful nations had done throughout history, or to retreat into isolationism, as it had after World War I.

From this perspective, it was perhaps inevitable that, as memories of the 1930s and 1940s receded, the process of international cooperation should have became more *ad hoc* — limited, mostly, to specific areas of policy where action seemed "urgent" at the time, such as the currency and debt crises. Although currency policy might be regarded as primarily the responsibility of the big countries, the whole idea behind the creation of the International Monetary Fund was that a country's exchange rate policy is a matter of concern for the international community and that the Fund should be involved. Yet the most important collective decisions in international financial policy in recent years have all been of this *ad hoc* type — the Louvre and Plaza accords, for instance, and the Baker Strategy on the debt problem. This "fire-fighting" role puts a premium on an ability to reach decisions quickly and back them up with cash — e.g. in the form of intervention in the currency markets. Only governments of the large developed economies have that kind of clout.

That explains why the move to flexible exchange rates was followed by a diminished interest by the most powerful countries in multilateral procedures and the institutions of multilateral cooperation that they had founded and held up as a model to the world, and especially to developing countries.

Yet the limitations of *ad hoc* cooperation as a means of running the world economy — especially the dominance of short-term, politically-determined action over long-term economic concerns — are becoming increasingly clear. For example, the annual economic summits are severely handicapped by the lack of a permanent organization to help ensure that decisions are clearly formulated and effectively followed through. In time it is likely that the big countries as a group, or individual countries, will again wish to turn to the institutions through which collective decisions are reached and legitimised. For this reason they would probably themselves recognize that it is in their vital long-run interests to maintain the authority of the multilateral institutions; indeed their spokesmen still frequently proclaim as much.

The big countries' interest in sustaining multilateral institutions is strengthened by two recent interrelated trends, one political and one economic, which, if they continue, could lead to dramatic changes in the structure and nature of the world economy over the next two or three decades. The first is the spread of political liberalization, whether it is called democracy or glasnost. The second is the widespread move toward what in the West are called more "market-oriented" economic policies, and elsewhere perestroika, or more "decentralized" or "incentive based" economic systems.

It is too soon to say how permanent and pervasive these two trends will prove to be, especially in China and the USSR. But on an optimistic view, they could lead to massive and potentially very desirable changes in global economic and geopolitical relationships. India too is moving away from *dirigiste* economic policies. In short, important new centres of prosperity and economic power could emerge in one or more of the three most populous countries in the world. In addition, several other small and medium-sized countries are likely to follow the "Gang of Four" into the ranks of the industrialized countries in the next ten to fifteen years.

However welcome in itself this may be, the inevitable counterpart would be a gradual decline in the relative position of the Western industrial democracies. This *need* not be a cause for concern, if it were to reflect a genuine shift toward liberal economic and political values in other parts of the world. But, as of now, there is no guarantee that this is the way the world will go; and even if it does, there is a high probability of discontinuities and surprises along the way, especially if, in the course of extricating itself from its payments and budget deficits, the United States becomes for a while more inward-looking, with a weakening of both its will and its means to exercise a leadership role.

Against this background of a world economic future full of both promise and danger, the case for at least trying to breathe new life into the multilateral approach becomes more compelling. Global economic institutions, if properly fashioned, can absorb change and integrate newcomers more easily than *ad hoc* alliances. They provide a vehicle whereby if, for the best of reasons, the relative economic strength of the Western industrial democracies is destined to decline, the voices of new centres of economic power which increasingly share similar values can progressively make themselves heard. On the other hand, as things stand now, "realism" could lead to a free-for-all in which everyone tries to make special arrangements with the newcomers — Western Europe with the USSR, the United States with Japan and Latin America, Japan with China, etc. in ways which threaten to undermine the whole system of multilateral trade and payments. Indeed, the fear has frequently been expressed that, on present trends, the world could become fragmented into three large blocks, North America, Europe and East Asia, each developing within protectionist walls.

In this broader perspective, a good case can be made that a significant strengthening of the multilateral institutions would be very much in the longer-run interests of the G5 countries themselves. In principle, indeed, they would be the first to accept this, and could point to efforts they have made to this end.

In practice, however, it would be naive to believe that the weaknesses in the present institutional set-up are likely to be rectified from the inside — i.e. through leadership from the

Summit. Self-selected groups, working without rules or objective criteria, do not adapt their membership in line with changing realities. Existing members will go to great lengths to avoid being excluded. Invitations to new members are stymied by the differing geopolitical interests of the existing members.

Equally, a small oligarchy of major powers is bound to be ambivalent about strengthening the multilateral institutions, since for them it is generally easier to cut deals behind the scenes. They will also tend to rely more on position papers prepared by their own national officials, reflecting their own national and bilateral interests, rather than on analyses prepared by the international organizations, reflecting the interests of their much larger membership.

Finally, the Group of Five, with its link to the Summit, has an inevitable bias towards damage limitation and the short-term political interests of those currently in power. It is a coalition of incumbent governments, and nobody wants to rock the boat. Genuine reform of the institutional framework for international cooperation is never likely to be high on its agenda.

If this analysis is accepted, it follows that needed changes are most likely to come about as the result of pressure from *outside* the charmed circle of the Group of Five. This, we suggest, could best be provided by the countries from outside this group coming together to form a "Group of the Non-Five".[10] Membership would be open to all countries that are currently members of the IMF or GATT, except for the G5 countries. It would, in other words, be open to all countries which by reason of their smaller size or lack of economic development have a strong self-interest in more effective *collective* management of the world economy. The new Group would seek to demonstrate, through its own structure and methods of work, that large membership is not incompatible with efficient "small group" decision-making. To do this it would seek to delegate decision making authority to a small

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[10]The plan outlined in the following pages goes back to a meeting held in Helsinki in March 1986 to explore possible areas of mutual interest among medium sized economies involving representatives from 15 developed and developing countries — the "Middle Powers". The plan has been elaborated by Stephen Marris, WIDER's Research Adviser on issues relating to the governance of the world economy, working in close consultation with Lal Jayawardena, Director of WIDER. Their papers, on which this Report is based, are contained in Appendices to the Report.

representative group drawn from its membership which would constitute the Governing Board of the Group of the Non-Five. In order to be of manageable size this Governing Board ought not, in our view, to exceed ten, and preferably be limited to only seven members, with the Soviet Union as an additional member at such time as she joins one or another of the multilateral institutions.

We envisage that the Group of the Non-Five should meet on an annual basis with the five principal Summit countries (the participation of Canada and Italy in both the Group of the Non-Five and the Summit can only help the process of two-way communication).[11] At these meetings the Group of the Non-Five would be represented by its Governing Board and it is our hope that these joint annual meetings could in time develop into and be known as an Interim World Economic Council. Such a mechanism would amount to an institutionalization of a World Summit where the selection of countries taking part would be determined on the basis of objective criteria reflecting their respective shares in world GNP, trade and population. However, in the initial exploratory stages of launching the process the Governing Board may wish to nominate an even smaller number of representative countries, say two or three, to initiate contacts with the Summit Five and set up joint meetings which could be known as 'Working Summits', pending the evolution of the Interim Council.

There is a sense now that, in the light of recent international developments, a high-level World Summit meeting is once more needed and we should seek to capitalize on this mood. The Secretary-General of the United Nations indeed, has lent the weight of his authority to the idea of such a meeting, as indeed have the former Chancellor of the Federal Republic of Germany, Mr. Willy Brandt, and the Foreign Minister of Norway Mr. Thorvald Stoltenberg.[12] But any such meeting should not be simply another *ad hoc* bout of global summitry. The Summit countries meet annually as a matter of

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[11] See Appendix A, *A Proposal to Create the Group of the Non-Five,* by Stephen Marris.

[12] *op. cit.,* Pérez de Cuéllar, Brandt, and Stoltenberg, p. 2.

course. If outside the Summit, the Group of the Non-Five could organize themselves as described, their representatives would be available to meet regularly with the five principal Summit countries. What is required is the elaboration of a substantive agenda for discussion and agreement on the criteria whereby the countries outside the Summit Five might form a representative group from among their membership.

In what follows we seek to develop ways in which the Group of the Non-Five along with the five principal Summit countries would engage in regular (we suggest annual) joint meetings. In the first place we indicate what the agenda of such meetings might look like. In the second place we suggest illustrative voting procedures whereby the affairs of the Group of the Non-Five can be entrusted to a Governing Board of no more than ten or eleven members and preferably seven or eight.

2. THE AGENDA OF A NEW REPRESENTATIVE GROUP

A central aim of our proposal is to provide a *political* counterpart to the G5 so as to promote the development of a more representative framework for governance of the world economy. The Group of the Non-Five would address the entire range of issues pertaining to the management of the world economy and the activities of all the relevant international organizations and seek to develop coherent policy positions on these matters. If, through its Governing Board, the Group of the Non-Five were to speak with a single visible voice in the Working Summits and eventually in the Interim Council on these issues it would become a force to be reckoned with, whose existence would be very difficult for the Group of Five to ignore. It could indeed provide a *political* constituency that could respond to and even elicit initiatives from individual G5 members, for example, a Japanese initiative on the debt problem that might otherwise be muted within the G5. If it succeeded in developing common positions on leading policy issues, the Group of the Non-Five would quickly emerge as a pacemaker for constructive change in international economic policy. For the aim is not to create a new divide between "them" and "us" but rather to institute pressures to narrow and eventually bridge the gap. The ultimate aim of the Group of the Non-Five would be to proceed from the Working Summit and Interim stages, where joint meetings are held with the key five Summit countries, to a fully-fledged World Economic Council with an even more manageable size of eight or eleven, as outlined in more detail below.

In working through the Bretton Woods institutions and the annual meetings with the Group of Five, the Group of the Non-Five would seek to articulate coherent viewpoints on economic issues. Politically, an important difference from earlier initiatives by developing countries would be that the new Group would include the smaller developed countries. Constitutionally, the innovation is that within the non-Bretton Woods part of the UN system there has not, so far, been an effective mechanism whereby a small group can act as a spokesman and effective lobby on behalf of the claims of a wider membership.[13] In order to be taken seriously the Group of the Non-Five will have to evolve a better representative mechanism; this, we suggest, should be based upon the constituency system developed within the Bretton Woods institutions, and applied to both developed and developing countries excluded from the G5 club.

More specifically, the objectives of the Group of the Non-Five in seeking meetings with the Summit countries would include the following:

1. To resist, by all possible means, further erosion of the multilateral institutions and to use the considerable influence that the Group would have within these organizations to try to ensure that relations between them and the Group of Five were not just a one-way street, as is to a large extent the case today.
2. To loudly and persistently lobby for the creation of an Interim World Economic Council in which the Group of the Non-Five would meet with the G5 summit countries. The new Group would announce from the outset that, if invited, it would be prepared to designate one or more of its members to participate in the Group of Five and Summit meetings in order to prepare for the establishment of such a Council.
3. To develop joint positions on all the main issues pertaining to management of the world economy — exchange rates, interest rates, finance, debt, trade, etc — which can then be placed before the Interim World Economic Council and the multilateral institutions.
4. To demonstrate, by its own mode of operation, the possibility of developing an efficient (i.e. small) but representative vehicle for discussion and negotiation on the major issues of international economic cooperation.
5. To develop proposals for a major reform of the existing international institutional framework. Proposals for monetary reform would surely command a very high priority in this context. What is needed is a new international monetary system

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[13] This proposition is explored more fully in Appendix B, in the paper by Lal Jayawardena entitled *Towards Improved Decision Making in the United Nations System, op. cit.*

designed and developed in order to avoid unduly large swings of exchange rates over the medium-run which distort international resource allocation and strengthen protectionism in the countries with over-valued currencies.

Ultimately the objective should be to develop a consensus between the developing countries and the smaller developed countries on a number of important issues; this consensus would be significantly different from the policies which the G5 is pursuing or proposing. This is clearly a wide-ranging agenda which will take time to accomplish. We are conscious of the fact that many governments may have difficulty in starting to work immediately on such a formal organization. Recognizing this, progress might be made initially through an informal representative group whose composition would, in effect, correspond roughly with that of a formal Governing Body of the Non-Five.

The lead may well have to be taken by an influential nucleus of countries outside the Summit Five which are convinced of the need to begin to coordinate positions informally. It would be open to them to work through existing informal networks such as the like-minded group of countries or the joint group of non-aligned and other developed countries who have made pronouncements from time to time at the level of heads of government on international issues. As an illustration, such an informal group might comprise representatives from three European countries, three Asian, two Western Hemisphere countries, one African and one Middle Eastern country, which would correspond to and foreshadow an eventual Governing Board of the Non-Five. If an informal and influential nucleus of countries were to reach a meaningful consensus on key policy issues this could serve as a valuable preparation for the Working Summit meetings and eventually the Interim Council itself. What we are proposing, in short, in the first instance is a trial-run.

The consensus within such an informal Group of the Non-Five could be put forward by their representatives in IMF and World Bank meetings and begin to generate a significant impact in that they would already represent the product of joint thinking between the developing countries and the smaller industrial countries. If a degree of success were to be obtained in such informal endeavours, it would pave the way for the creation of the Group of the Non-Five on a more formal basis.

3. COMPOSITION OF THE GOVERNING BOARD OF THE GROUP

In order to participate effectively in the annual Working Summits and eventually in the Interim World Economic Council, it is suggested that the Group of the Non-Five entrust policy-making to a small Governing Board meeting at least quarterly. To allow for real interchange and the possibility of members modifying their positions through 'peer group' pressures, the Board should be of no more than ten or eleven members, or as mentioned, preferably seven or eight. The composition of the Board would be chosen on the basis of a weighted voting formula analogous to that in the Bretton Woods institutions, where groups of countries club together into constituencies to choose a director to speak for them. Executive Directors could come from any of the constituent countries, but would be entrusted with the task of speaking on behalf of all of them, with the possibility, as in the Bretton Woods institutions, of indicating differing national viewpoints.

The Board would seek to develop a consensus on a particular policy area without the need to have recourse to formal voting. However, some procedures should be laid down to enable the Board to come to a coherent position. In our judgment, voting rights should be based on country quotas, which should in turn be based entirely on three *objective* criteria, trade, purchasing power parity GDP, and population (revised automatically at periodic intervals), in terms of a formula developed by Stephen Marris.[14] Normally, when it came to voting on policy issues, each member of the Governing Board would cast his vote as a block, weighted according to the total voting power of his constituency, as in the IMF. Insofar as possible the rules and procedures should be designed to promote compromise and consensus within each constituency. But there should also be provisions such that under clearly

[14] The formula ("A" in Stephen Marris's paper in Appendix A) implies giving equal weight (45 per cent) to trade and GDP calculated according to purchasing power parity, plus a 10 per cent weight to population, with, in addition, "basic votes" for each country adding up to 4 per cent of total voting power.

defined and relatively rare circumstances there would be a free vote, with countries allowed to cast their vote individually rather than through their constituency.

Table 1 sets out alternative configurations of Governing Board representation, voting rights according to the Marris formula, and the numbers of countries involved. A ten-member Governing Board, for example, would allow for three members from Europe, three from Asia (including Oceania), two from the Western hemisphere including Canada, and one each from Africa and the Middle East. In Europe, there could be two European Community constituencies, and another primarily from Eastern European and neutral countries such as those of the Nordic Group. In Asia and Oceania, there might be two constituencies formed under the leadership of India and China, and a third Pacific Rim constituency including Australia and New Zealand. In the Western Hemisphere, Canada might join in a constituency including Central America and the Caribbean, as is indeed partly the case today in the IMF, with a second South American constituency. There would be provision for the USSR to join as an observer from the outset, with full membership resulting from a further decision to join either GATT or any of the Bretton Woods institutions. An even smaller Governing Board of seven members would also be feasible. In this configuration, Europe and Asia would each have two constituencies with one each for the Western Hemisphere, Africa and the Middle East.

TABLE 1.

COMPOSITION OF THE NON G-5 GOVERNING BOARD: REGIONAL GROUPINGS

Region/1	Voting Rights (formula A)	Number of Countries	Number of Seats on the Governing Board	
			7	10
Europe	33.4	23	2 (2.34)	3 (3.34)
Asia & Oceania	32.0	30	2 (2.24)	3 (3.20)
Western Hemisphere	18.0	34	1 (1.26)	2 (1.80)
Africa	8.5	50	1 (0.60)	1 (0.85)
Middle East	8.1	15	1 (0.57)	1 (0.81)
Total	100.0	152	7	10

Figures in parentheses are the unrounded number of seats.

1. Includes present members of the IMF and/or the GATT. Europe includes Turkey, Africa includes Egypt. Voting power from Appendix A, Table 5, second column (page 63).

A ten-member Board (with the prospect of the USSR eventually becoming the eleventh member), would do more for representation of its wider collectivity than a seven-member Board, without any major sacrifice in the efficiency of its operation; on the other hand a smaller Board would facilitate the task of reaching consensus on contentious policy issues, and would also ease the transition to the more formal stage of the Interim World Economic Council and is on balance our preferred option.

The broad balance between the developed and developing countries in the IMF, roughly 60/40, and between G5 and non G5 developed countries, would remain unaltered if Stephen Marris's formula were used, as indicated in Table 2, and this is assumed to be a reasonably accurate reflection of the realities of the world today in terms of economic and political power. The principal differences would arise with regard to the somewhat reduced share of the European Community, and the significantly increased share of the low-income group of countries, the latter essentially because of the use of purchasing power parity GDP. The share of Asia rises because of the inclusion of population, while that of both Africa and Latin America decline reflecting in part their relatively less good economic performance, *vis a vis* Asia.[15]

Secretariat Facilities

As the ultimate aim of the Group of the Non-Five would be to make itself redundant, it would be a mistake for it to have a career-based secretariat. Nevertheless, the Group would need the services of a secretariat, especially to provide a vehicle for communication and coordination between its numerous and diverse membership. One solution would be for national officials to be seconded, full time, to the secretariat for a period of two to four years, under an agreed system of rotation. Coordination within each constituency would be facilitated if the regional Economic Commissions of the United Nations would provide office space and technical facilities for use by the secretariat of the new group.

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[15] See Stephen Marris's paper, Appendix A, *op.cit,* pages 55–60.

TABLE 2

INTERNATIONAL MONETARY FUND: VOTING POWER & ECONOMIC INDICATORS, 1985
(percent share in total IMF)

	Voting Power			Economic Indicators			
	IMF	Formula A	Formula B	Trade	GDP-EXR*	GDP-PPP**	Population
Developed	60.4	59.3	61.1	73.0	76.5	59.3	16.5
Developing	39.6	40.7	38.9	27.0	23.5	40.7	83.5
Non-G5	59.1	58.6	55.8	53.2	38.1	53.9	88.0
Developed							
G7	47.2	48.3	50.7	56.5	68.3	51.7	13.9
G5	40.9	41.4	44.2	46.8	61.9	46.1	12.0
Developing							
China & India	5.0	10.4	10.7	2.7	4.7	12.2	40.7
Other Asia	5.6	7.7	7.3	6.2	3.3	6.8	15.6
Western Hemisphere	9.3	7.4	6.3	4.1	5.7	9.2	8.7
Middle East	8.2	5.4	5.4	6.9	4.3	3.9	3.6
Africa	7.4	5.3	5.8	3.4	2.7	3.3	11.2
Europe	4.2	4.5	3.5	3.7	2.8	5.4	3.7
All Countries							
Export of Manuf.	63.6	70.3	71.4	75.1	79.4	72.9	59.3
Export of Fuel	13.0	9.6	9.5	9.9	7.9	8.7	11.1
Export of Primary Prod.	23.4	20.1	19.1	15.0	12.8	18.5	29.6
Other Groupings							
Debt-service difficulties	11.5	8.4	8.1	4.5	5.4	8.4	15.7
Low Income	9.4	14.6	15.3	3.8	5.7	15.2	54.8
European Community	28.6	26.5	24.7	37.4	22.6	21.5	7.3
OPEC	11.0	7.3	7.6	8.3	6.1	5.8	8.8
Eastern Europe	2.6	2.9	2.3	2.4	1.8	3.7	2.1
ASEAN	2.8	3.9	3.5	3.8	1.8	3.5	6.5
Small countries	8.9	7.0	6.8	8.2	3.3	3.1	2.6

Notes on voting power:

(1) In the IMF, each country is allocated a base vote of 250 plus one vote for each SDR 100,000 of its quota. These base votes amount to 4.03 percent of the total voting power. In formula A, base votes, equalling the same percentage of total voting power, have been allocated in the same manner.

(2) In formula A, the remaining voting power has been allocated using weights of 45, 45 and 10 per cent for trade, purchasing power parity GDP, and population, respectively.

* GDP measured at current exchange rates.

** GDP measured at purchasing power parity

See Stephen Marris's paper, op.cit. in Appendix A, pages 52 and 96–101.

4. INSTITUTIONAL WEAKNESSES OF THE PRESENT SYSTEM

One of the principal objectives of the Group of the Non-Five in seeking an Interim Council would be to lobby for a more thorough-going reform of the institutional framework of economic cooperation and the remainder of this report summarizes what we believe to be some of the principal weaknesses of the present set-up, ending with some suggestions about where we might go from here.

The present setup is, to say the least, untidy. There is the UN system, with specialized agencies covering many of the relevant subject matter areas and geographical regions,[16] but which has been unable to put its act together when it comes to decision-making on concrete economic issues. There are the largely autonomous agencies with a global vocation, most notably the IMF, the GATT and World Bank. There are the numerous regional organizations (the European Community, EFTA, ASEAN, the OAS, SELA, etc.). There is a rich man's club in Paris (the OECD). There is a central bankers' club in Basle (the Bank for International Settlements). And then there are the "Gs": the G77, G24, G10, G7, the G5, and, some believe, a G3 and a G2.

A principal reason why this structure of overlapping areas of competence and divided responsibilities is now becoming a matter of major concern is that the G5/G7 appear to be moving, albeit tentatively, toward a managed system of exchange rates between the major currencies. If maintained, this will have profound institutional consequences.

Managing exchange rates is not simply, or even primarily, a matter of official intervention in the currency markets, but of allowing exchange-rate considerations to play an important role in the formulation of monetary policies and — to a somewhat lesser extent — fiscal policies. Obviously, however, the monetary and fiscal policies of the G5 countries

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[16]For example, industry (UNIDO), agriculture (FAO), labour (ILO), development (UNDP), trade and commodities (UNCTAD), the environment (UNEP); and the Economic Commissions for Africa (ECA), Asia and the Pacific (ESCAP), Europe (ECE), Latin America and the Caribbean (ECLAC), and Western Asia (ECWA).

have a major impact on the world economy, and, by the same token, decisions concerning these policies should take into account conditions prevailing in the world economy. There is therefore the prospect that we could be moving, *de facto,* into a world in which decisions of central importance to the world economy are discussed and taken by a body with no constitutional linkage to the existing institutional framework.

Even if this does not come to pass, it is already the case that many of the problems discussed by the G5/G7 and the Summit fall within the competence of one or more of the relevant international organizations, as does the responsibility for carrying through the proposed solutions. The Summit is not, however, empowered to give instructions to these organizations, nor are they accountable to it.

The usual answer is that this does not, in practice, create problems, because there are close consultations with these organizations during the preparation of G5/G7 and Summit meetings and during the follow-up to any decisions taken. Experience suggests, however, that this is not enough. The truth is that, in political terms, international organizations are in a subservient position vis-a-vis the Summit, and cannot help competing among themselves for its favours. There is thus no assurance that the Summit will take the right decisions as to who should do what, with what resources, and within what time frame.

The same inhibitions have a wider influence. The more successful, and hence the more important, the G5/G7 and the Summit become, the more the international organizations will try to enlist their political support to advance their own institutional interests, and in doing so, be tempted to compromise their objectivity and their responsibility to the world community as a whole.

5. LONG-RUN OBJECTIVES AND STRATEGY

There is no simple solution to these institutional weaknesses, since they are a faithful reflection of an untidy world. Over the longer run they can only be remedied by genuine institutional reform, involving the negotiation of new or amended charters, articles of agreement, conventions, etc.; the downgrading or elimination of some organizations; and the strengthening — and possibly the merging — of others.

The Group of the Non-Five could and should make a major effort to improve the political climate for reform (which to some extent would follow directly from its own creation), and to push for pragmatic progress in the right direction whenever the opportunity arises.

A first step would be for the Working Summits to take an active role in supporting the proposals to strengthen the GATT, partly by instituting new decision-making procedures, based on constituencies and weighted voting, designed to insulate it from undue pressure from the major powers or large trading blocks such as the European Community. In this context, it is interesting and encouraging that an informal mixed North-South (and East-West) group of middle-ranked powers — the Cairns Group — is already playing an active role in the Uruguay Round.[17] A second longer-term objective should be to examine the respective roles and functions of the principal international institutions, in particular the relationship between the IMF, World Bank and the GATT. The Working Summits and, later, the Interim Council should critically review possible inconsistencies in the policy advice tendered to member countries by these organizations. At the same time, the Group of the Non-Five could invite the heads of the relevant international institutions to participate in regular sessions devoted to questions concerning the coordination of their activities, and especially issues arising at the interface of

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[17] Composed of Argentina, Australia, Brazil, Canada, Chile, Fiji, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand and Uruguay.

their respective responsibilities. It would be essential in the long term to develop ways of dealing effectively with the increasing number of issues in which several organizations have a legitimate interest.

Looking further into the future, the issue of genuine institutional reform should not be put off indefinitely. The fundamental longer-term issue is the need to develop some constitutional linkage between the G5/G7 process and the governance of a set of reformed institutions. Ideally, it would be best if the reform exercise were completed under the auspices of the fully-fledged "World Economic Council" discussed below. Before turning to the possible composition of such a World Council, however, we briefly review the present activities of UN agencies other than the Bretton Woods institutions since, although they have no real power, they have had considerable influence — for example, in establishing acceptance of targets for development assistance as proportions of GNP — and they are still the main focus of interest of many people in developing countries.

6. REVIEW OF DECISION-MAKING IN THE UN SYSTEM

Once the Group of the Non-Five had established itself it should carry out a careful review of the functions of the non-Bretton Woods UN bodies dealing with economic issues to identify those which are concerned with issues that are not dealt with by the Bretton Woods institutions but which might well be. In such cases, an option for consideration is whether the relevant UN bodies should not be reformed along lines similar to the proposal for the constitution of the Group of the Non-Five.

Independently of the outcome of this process, however, in our view it is important also to attempt to improve the existing UN policy-making system. As noted above, for better or worse many people in the developing countries still look to the United Nations as the world's principal institution of collective policy-making. It has legitimacy in developing countries. Thus, it is all the more important that whatever work is done by the United Nations in the field of economic affairs should be carried out in ways which enhance consensus in the United Nations itself.

At present, policy making in the United Nations is still based largely upon the old established principle of 'one country — one vote'.[18] This procedure is always employed in the General Assembly of the United Nations, and at the periodic issue-specific conferences of UN member states, for example, UNCTAD and the Conferences on environment, population, food, etc. It is true that the sheer unwieldiness of this system has led over time to various mechanisms whereby one country can, in some sense, represent the claims of others. Typically, for example, policy making between conferences of the entire membership of the United Nations is entrusted to a sub-set of countries, the Economic and Social Council (ECOSOC) in the case of the UN, the Trade and Development Board in the case of UNCTAD, and comparable Governing Councils for each of the other UN specialised agencies. In UNCTAD, the

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[18]This section draws on the paper by Lal Jayawardena, *op.cit* in Appendix B.

developed countries caucus together as Group B with a single spokesman to represent them. Within Group B identifiable sub-groups also function informally, the Nordic Group, for example, and the group of like-minded countries — a group of "middle powers" outside the big five — which has sought more or less explicitly to build bridges with the developing countries, and assist in evolving workable compromises on contentious issues.

Representation in this sense, however, gives special weight to the lowest common denominator of views held by various countries; in the case of Group B, for example, the view of the hardest-line country has often prevailed. Considerations of group solidarity tend to polarise negotiating positions. This is clearly true of the Group of 77 as well, where a similar convention of designating a single group spokesman has evolved. These practices result in a notable absence of substantive breakthroughs, which even when they occur lack any binding character.

By contrast small-group, representative-based policy-making can indeed work effectively. Two examples are the Committee of Twenty in the mid-1970s, which functioned within the Bretton Woods system and which was charged with the development of proposals for the reform of the international monetary system, and the Group on Supplementary Financial Measures, functioning within the non-Bretton Woods part of the UN system, which was convened in an UNCTAD context in the mid-1960s. The Committee of Twenty was in essence a meeting between the Deputies of the Group of Ten, the principal industrialized countries, and Deputies from developing countries representing nine constituencies, with Australia being the 20th. Each constituency was represented by two deputies so that forty persons were present in the conference chamber. Secretariat facilities were provided by a secondment of Bank and Fund staff to an elected Bureau comprising the Chairman of the Deputies and four Vice-chairmen, two each representing developing and developed countries. The objective was to duplicate, through a multilateral process of discussion and thought, the work that Keynes and White were allowed to do in their individual capacities at Bretton Woods. The agreed proposals of the Committee of Twenty were embodied in *An*

Outline of Reform,[19] although this was shelved because the deterioration of the international outlook brought about by the oil crisis made the main countries unwilling to enter into new commitments.

The Group on Supplementary Financial Measures that emerged to study a resolution of UNCTAD I in 1964 investigated the need for a facility to protect development plans by insuring developing countries against short-falls in exports from a level of reasonable export expectations underlying these plans. This Group functioned largely on the basis of position papers developed by individual representatives. Since the Group was convened under UNCTAD auspices, the chairman had, of course, the assistance of the UNCTAD secretariat for logistical purposes. The major substantive documentation, however, came from the World Bank which was asked by the UNCTAD resolution to provide a staff study on a scheme for implementing supplementary financial measures; and the debates hinged on whether or not the Bank scheme was superior to a scheme prepared by the delegation of the Federal Republic of Germany. Even though the Bank scheme favoured by developing countries was in the end rejected by key donors, the procedure used showed its potential effectiveness in allowing policy to be developed on a complex economic issue among a group of countries with widely differing interests.

It was this experience with the effective functioning at the intellectual level of representative small groups that led to the proposal, first developed in the report of the United Nations Group on Restructuring,[20] for small representative negotiating groups to become the typical *modus operandi* of the UN system in the economic sphere. Each group would work within a specified time frame — say one to two years — and would be charged with producing agreed recommendations on the issue entrusted to it. This remains the direction in which reform should proceed.

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[19] Committee of Twenty on Reform of the International Monetary System and Related Issues: *International Monetary Reform: Documents of the Committee of Twenty* (IMF, Washington, D.C., 1974).

[20] United Nations, *A New United Nations Structure for Global Economic Co-operation. Report of the Group of Experts on the Structure of the United Nations System,* New York, 1975.

7. THE TRANSITION TO THE WORLD ECONOMIC COUNCIL

The reforms and institutional innovations proposed so far should be seen as paving the way in the long term for the establishment of a truly global representative forum for the discussion of and decision-making on key economic issues at the highest political level — a forum in which all countries would have the right to be represented. The Interim Council proposed above would then develop into a fully-fledged World Economic Council based upon a constituency system. This Council would take on *de jure* the economic responsibilities assumed by the present Summit de facto, whereas the Interim Council would be a joint forum for discussion, leaving decision-making to existing institutions. The Council would provide a vehicle through which further institutional reform could be negotiated and would, eventually, also provide a political mechanism through which oversight could be exercised over a set of reformed global institutions. With the creation of the Council, the Group of the Non-Five would achieve its ultimate aim of becoming redundant and would be wound up.

While no doubt premature, it is tempting to speculate about what the composition of such a World Economic Council

TABLE 3.

COMPOSITION OF A WORLD ECONOMIC COUNCIL: REGIONAL GROUPINGS
Including the USSR

Region	Voting Rights (formula A)	Number of Countries	Number of Seats on the Governing Board 8	11
Western Europe	27.3	21	2 (2.18)	3 (3.00)
Asia & Oceania	25.6	32	2 (2.05)	3 (2.82)
Western Hemisphere	25.2	35	2 (2.02)	3 (2.77)
USSR & Eastern Europe	12.4	8	1 (0.99)	1 (1.36)
Africa & Middle East	9.5	65	1 (0.76)	1 (1.05)
Total	100.0	161	8	11

Figures in parentheses are the unrounded number of seats.

might look like. If it were to include the USSR from the outset, the possible regional composition, based on formula A voting power, for a Council with between eight and eleven members, is shown in Table 3. In fact, eight turns out to be a good number, with two members each from Europe, the Western Hemisphere, and Asia-Oceania, one from the USSR and Eastern Europe and one from Africa-Middle East. In this format, four of the present G7 countries could be members (the United States, Japan, and two G7 countries from Europe), with one for the USSR and Eastern Europe and the other three members representing Latin America, Asia-Oceania, and Africa-Middle East.

Such an eight member Council could be both representative and efficient. Difficulties could arise, however, especially in Europe, where there would be little difference between the voting power of France and the United Kingdom, but there would not be room for both. An alternative would be to have eleven members, which would help to solve this problem, and could also open up the possibility of a Western Hemisphere constituency headed by Canada. In other words, with eleven members, six constituencies might be headed by G7 countries. However, in this case the USSR and Eastern Europe would be slightly under-represented with only one member. Until the USSR is invited to join, the 'good' numbers for the size of the Council turn out to be seven or ten (Table 4).

TABLE 4.

COMPOSITION OF A WORLD ECONOMIC COUNCIL: REGIONAL GROUPINGS
Excluding the USSR/1

Region	Voting Rights (formula A)	Number of Countries	Number of Seats on the Governing Board	
			7	10
Europe	33.2	24	2 (2.32)	3 (3.32)
Western Hemisphere	28.8	34	2 (2.02)	3 (2.88)
Asia & Oceania	27.3	29	2 (1.91)	3 (2.73)
Africa & the Middle East	10.6	64	1 (0.74)	1 (1.06)
Total	100.0	151	7	10

Figures in parentheses are the unrounded number of seats.

1. Includes only present members of the IMF. Europe includes Turkey, Africa includes Egypt.

8. CONCLUSION

Over the years, the international community has been groping towards ways of improving upon the twin policy-making processes of the UN system and its agencies. Within the Bretton Woods institutions, the developing countries feel that they are very much "under siege" and are bound to accept decisions over which they do not have much say. Conversely the developed countries have felt under siege in the rest of the UN system where the principle of one country, one vote, prevails and where majority decisions, often of a censorious character from the standpoint of developed countries, have a great deal more than nuisance value, as for example in the debate on the New International Economic Order of the early 1970s. The problem has been exacerbated over the years with the admission into the United Nations of an increasing number of "micro states" leading to the charge of decision-making being always at the mercy of the "tyranny of the majority". This is a further reason why a new initiative is needed.

For the non-Bretton Woods UN system we suggest moving systematically towards greater use of small negotiating groups, which would be given the task of hammering out collective positions on specific and well-defined policy issues and making agreed recommendations within a defined time-frame. Experience suggests that the recommendations coming out of such a process would be more realistic and intellectually coherent than those that have emerged from majority decisions and therefore would carry greater weight.

Within the Bretton Woods system, there is a familiarity with binding decisions being taken by representatives who are selected on a constituency basis by member countries. This is also the case with GATT, which is a multilateral treaty. Yet at present, international cooperation tends to take place outside a legally constituted framework, namely within the Group of Five countries. It is with the objective of restoring a truly international, multilateral system of economic and financial policy-making that the concept of the World Economic Council bringing together the Five and the Non-Five is advocated.

APPENDICES

Appendix A

A PROPOSAL TO CREATE THE "GROUP OF THE NON-FIVE"

Stephen Marris[1]

"We will decide for you, about you, but without you".

Attributed to a spokesman of the Grand Alliance addressing representatives of the United Dutch Provinces during the negotiation of the Treaties of Utrecht, 1713.

I BACKGROUND AND SUMMARY

The Background

This paper sets out a proposal to create a new "Group of the Non-Five." The first section describes the background to the proposal and summarizes its main features. Subsequent sections discuss the membership, voting power, and the structure and mandate of the new group. The last section discusses some longer term issues: the need to reform the existing institutions, and the eventual creation of a "World Economic Council".

For the first 25 years, the multilateral economic institutions created in the aftermath of World War II were held in high repute. Indeed, while there were ups and downs, it was possible to believe that we were moving progressively towards a coherent system of collective management of the world economy in the common good. High spots were the recovery program for Europe, the establishment of multilateral aid programs for the poorer countries, the Kennedy Round of multilateral tariff negotiations, the negotiated realignment of

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[1]Senior Fellow, Institute for International Economics, Washington D.C., Research Adviser, WIDER, formerly Economic Adviser to the Secretary-General of the Organization for Economic Cooperation and Development, Paris. The author wishes to thank John Hopkins for research assistance.

parities at the Smithsonian, and, above all, the SDR agreement, which appeared to pave the way to collective control over an increasingly important fraction of the world's money supply.

It would be hard to deny that this progress was halted, if not reversed, somewhere around the mid-1970s. In the broader sweep of history, this could turn out to have been a temporary hiatus. The 1970s were troubled years for the world economy. More important, during this period the major powers had a change of heart. For a time they became convinced that, with exchange rates left to float, then, if each country looked after its own "fundamentals", the world economy would look after itself.

By the mid-1980s this belief began to crumble under the realities of steadily increasing economic interdependence. The debt crisis erupted, the dollar soared, and protectionism of both the old and "new" variety blossomed. The response has been a significant strengthening of the role of the International Monetary Fund vis-a-vis the developing countries, the Plaza/ Louvre strategy for managing the dollar's decline, and the Punta del Este Declaration initiating a major new round of multilateral trade negotiations.

These are welcome developments, and clearly indicate that the fortunes of international economic cooperation are looking up again. There are, nevertheless, important respects in which the world of the late 1980s differs significantly from that envisaged by the founders of the post-war multilateral institutions.

True, the debt crisis has been contained. But finding the institutional framework needed to achieve the right blend of adjustment and financing remains as elusive as ever, leaving little prospect of resumed large-scale flows of real resources to the poorer parts of the world, despite the existence of large external surpluses in Japan and Europe.

True, a serious effort is being made to manage key exchange rates. But it is so far only based on fragile and ambiguous agreements reached between a small group of countries outside the existing institutional framework.

True, the Contracting Parties have set themselves ambitious objectives to strengthen the GATT and extend its mandate. But at the same time many observers believe that in the absence of a "multilateral miracle" the world is headed towards increasing bilateralism and regionalism. Among the examples cited are the US/Canadian free trade agreement, the European Community's preoccupation with creating a "single" market by 1992, proposals for a Pacific Rim OECD, and evidence of a putative "G2" between the United States and Japan.

Equally, the multilateral institutions themselves have not come through this difficult period unscathed. In the monetary field, the phenomenal growth of the international financial markets has undermined the IMF's intended role as a impartial lender of the last resort to deficit countries, both developed and developing. Thus, while the debt crisis greatly increased the leverage of the IMF vis-a-vis the developing countries, the reverse has been true for the developed countries. The United States provides the most flagrant example. When the inflow of private capital needed to finance the enormous US current account deficit dried up in 1987, the central banks of the Group of Ten lent some $120 billion to the United States,[2] subject only to some vague promises to reduce its budget deficit made in a forum outside the IMF, without any semblance of the "performance requirements" which have become a standard feature of IMF lending. In the trade field, the authority of the GATT has been undermined by the proliferation of trade restrictions and trade distorting measures introduced in response to slow growth and monetary instability. More fundamentally, work is really only getting underway now to fill the void created when the US Congress failed to ratify the far-reaching 1948 Havana Charter which would have established the International Trade Organization.

More broadly, the legitimacy of the multilateral institutions in the governance of the system has been undermined by the increasing tendency for the major powers to take important decisions concerning them in the Group of Five and the Group of Seven. The emergence of the Summit has had the advantage of involving heads of state more directly in international economic decision making, and small groups are conducive to effective decision-making. But the absence of any constitutional linkage between these new decision-making groups and the multilateral institutions has inevitably weakened them, and made them more vulnerable to political pressures from the major powers. Moreover, in terms of the longer run evolution of the system, the G5/G7 are grossly

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[2]Through intervening in the currency markets to support the dollar. See Bank for International Settlements, 58th Annual Report, Basle, June 1988, pp. 187–89.

unrepresentative. Developing countries, with 40 per cent of the votes in the IMF are totally absent, while Western Europe, with 30 percent of IMF voting power, has three out of five seats in the G5, and four out of seven in the G7.

One way to view these developments is to suggest that the original post-war concept of a structured institutional framework for collective management of the system was, however worthy, simply unrealistic. As the horrors of the war and the 1930s receded, economic nationalism was bound to reemerge. In a world of still fiercely independent nation states, governance will inevitably be matter of shifting coalitions of power in which the most powerful countries — in particular the United States — will play a disproportionate role. It is often argued, moreover, that to an important extent the postwar multilateral institutions were simply a vehicle for the exercise of US hegemony. Thus, it is argued that with the relative decline in the power of the United States, the emergence of some form of collegial leadership along the lines of the G7/G5 was both inevitable and desirable.

It can be further argued that on the evidence to date we may well be able to muddle through. Recent experience, as noted earlier, suggests that when serious issues of global interdependence emerge, they have in the end been tackled in an *ad hoc* way by a complex mixture of bilateral, small group, regional and multilateral means. It is said, moreover, that there is no point in crying over spilt milk. The creation of the postwar global institutions was a reaction to a devastating world depression and a devastating world war. Since nobody could wish for a repeat performance, it should be accepted that the political basis for a significant strengthening and restructuring of these institutions simply does not exist.

Without doubt, this realist view of the state of the world sounds plausible. And maybe we will be able to muddle through more or less indefinitely into the future. But equally, it cannot be denied that the future would be better assured if some way could be found to nudge the system back towards the concept of structured collective management embodied in the post-war multilateral institutions.

This view is strengthened by two recent interrelated trends, one political and one economic, which, if they continue, could lead to dramatic changes in the structure and nature of the world economy over the next two or three decades. The first is the spread of political liberalization, whether it is called democracy or glasnost. The second is the widespread move toward what in the West are called more "market-oriented" economic policies, and elsewhere perestroika, or more "decentralized" or "incentive based" economic systems. It is too soon to say how permanent and pervasive these two trends will prove to be, especially in China and the USSR. But on an optimistic view, they could lead to massive and potentially very desirable changes in global economic and geopolitical relationships. Important new centres of prosperity and economic power could emerge, not just in small and medium-sized countries, but in one or more of the three most populous countries in the world.

However welcome in itself, however, the inevitable counterpart would be a gradual decline in the relative position of the Western industrial democracies. This *need* not be a cause for concern, if it were to reflect a genuine shift toward Western economic and political values in other parts of the world. But, as of now, there is no guarantee that this is the way the world will go; and even if it does, there is a high probability of discontinuities and surprises along the way.

In this context, much will depend on the United States. Whatever the criticisms, it cannot be denied that the United States has been the most powerful and persistent advocate of both democracy and the market mechanism. And in the process it has acquired much experience in the exercise of global leadership which newcomers, like Japan, inevitably lack. In any plausible scenario of the future the United States is likely to remain the single most powerful nation, in economic and military terms, at least "as far as the eye can see." Nevertheless, it has to be a cause for concern that during the 1980s the United States went off on a consumption spree which has turned it into the world's largest debtor nation. It is still both possible and highly desirable that it can extricate itself from this situation without serious damage. But it cannot be excluded that in the process the United States will become, for a while, more inward-looking, with a weakening of both its will and its means to exercise a leadership role.

Against this background of a world economic future full of both promise and danger, the case for at least trying to breathe new life into the multilateral approach becomes more compelling. Global economic institutions, if properly fashioned, can absorb change and integrate newcomers more easily than *ad hoc* alliances. They provide a vehicle whereby if, for the best of reasons, the relative economic strength of the Western industrial democracies is destined to decline, the voices of new centres of economic power which increasingly share similar values can progressively make themselves heard.

On the other hand, as things stand now, "realism" could lead to a free-for-all in which everyone tries to make special arrangements with the newcomers — Western Europe with the USSR, the United States with Japan and Latin America, Japan with China, etc. in ways which threaten to undermine the whole system of multilateral trade and payments.

In this broader perspective, a good case can be made that a significant strengthening of the multilateral institutions would be very much in the longer run interests of the G7 countries themselves. In principle, indeed, they would be the first to accept this, and could point to efforts they have made to this effect.

In practice, however, it would be naive to believe that the weaknesses in the present institutional set-up are likely to be rectified from the inside — i.e. through leadership from the Summit. Self selected groups, working without rules or objective criteria, do not adapt their membership in line with changing realities. Existing members will go to great lengths — including political blackmail — to avoid being excluded. Invitations to new members are stymied by the differing geopolitical interests of the existing members. Equally, a small oligarchy of major powers is bound to be ambivalent about strengthening the multilateral institutions, since for them it is generally easier to cut deals behind the scenes. They will also tend to rely more on position papers prepared by their own national officials, reflecting their own national and bilateral interests, rather than on analyses prepared by the international organizations, reflecting the interests of their much larger membership. Finally, the Group of Five, with its link to the Summit, has an inevitable bias towards damage limitation and the short-term political interests of those currently in power. It is a coalition of incumbent governments, and nobody wants to rock the boat. Genuine reform of the institutional framework for international cooperation is never likely to be high on its agenda.

If this is accepted, it follows that if changes are to be made they are most likely to come as the result of pressure from *outside* the charmed circle. That is the purpose of the proposal outlined below. It may seem radical — but it is also simple, and doable.

The Group of the Non-Five

The proposed new group would have two principle aims. First, to constitute the strongest possible political pressure group for a strengthened multilateral system. To this end it would be open to all countries which by reason of their smaller size or lack of economic development have a strong self-interest in more effective *collective* management of the world economy. Second, the new group would seek to demonstrate, through its own structure and methods of work, that large membership is not incompatible with efficient "small group" decision-making.

More specifically, membership would be open to all current members of the IMF or the GATT, other than the Group of Five. Provision should be made for the eventual accession of the Soviet Union and other non-member countries if and when they joined the IMF or the GATT, and these countries might be offered observer status in the new group from the outset. As thus constituted, full members of the new group would account for 59 per cent of IMF voting power, 53 per cent of the total trade of the IMF membership, and 88 per cent of its population (see Section III).

Decision-making in the new group would be based on a system of weighted voting, with voting power determined explicitly by economic indicators such as trade, GNP and population, and would be revised automatically at periodic intervals. Once the basic formula had been agreed, a group of independent experts would be established to monitor its implementation.

The new group would be headed by a small Governing Board of, say, ten or eleven members, elected using a "constituency" system, patterned on that used in the IMF. The first act of the Governing Board would be to inform the Summit countries that, if invited, the new group would be prepared to designate one or more of its members to participate in future Summit meetings. It would also, itself, meet at the level of heads of state just prior to Summit meetings to make its views known on the economic issues due to be discussed.

Subgroups would be established, on the same organizational principles, to deal with monetary affairs (the IMF), trade (the GATT), development (the World Bank) and possibly other subjects. These sub-groups would be charged with developing proposals for strengthening and reforming the present institutions with respect to decision-making, functional responsibilities, and the increasingly important linkages between finance, trade and development.

An Executive Committee, made up of "personal representatives of the heads of state" would be established to follow the work of the sub-groups, and prepare the meetings of the heads of state.

From the outset, it should be emphasized that the ultimate aim of the new group would be to make itself redundant. This would be achieved if and when it could demonstrate to itself, and to the major powers, that it is possible to achieve efficient "small group" management of the system, in institutions with universal membership, by using weighted voting and the constituency system. If this could be demonstrated, it seems quite possible that in time the Summit countries would come to accept that the existence of the new group could provide a practical and dignified way of solving the problem of the G7's increasingly outdated membership. And once this point had been reached, the way might open to merge the new group and the Group of Seven into a World Economic Council, which would take over the economic functions of the existing Summit, and be responsible for oversight of a set of reformed global institutions run by constituency-based governing boards.

It was, after all, the legitimate frustration of the major powers with the cumbersome nature of the existing organizations that led to the Summit and the Group of Five being set up outside the existing institutional framework in the first place. It would only make sense to reverse this process if it could be demonstrated that there was a better alternative. This might take many years; but, if successful, would be immensely worth the effort.

II MEMBERSHIP

It it suggested that membership of the new group should be open to all countries that are currently members of the IMF or the GATT, other than the United States, Japan, the Federal Republic of Germany, the United Kingdom and France.

Canada and Italy

When the Group of Five was established on a formal basis at the Versailles Summit in 1982, Canada and Italy were excluded, much to their annoyance. Four years later, however, at the Tokyo Summit, they were able to work themselves partially into the G5 mechanism through the vehicle of a newly established group of G7 finance ministers.[3]

It might be tempting, albeit unrealistic, to suggest that Canada and Italy could only join the new group if they severed their connections with the Group of Seven. On balance, however, it would seem more sensible to invite them to join the new group without attaching conditions. First, this would raise the new group's simple majority in Fund voting rights from 53 per cent to 59 per cent. Second, and more important, since the ultimate aim of the new group is a merger with the Summit, these two countries could provide a useful bridge and channel of communication between the two groups while working towards this end.

Canada, in particular, would be well suited to this role. It has traditionally followed an internationalist foreign policy and tried to act as a mediator between North and South. It has also tried to strengthen the channels of communications between the Summit and other countries, notably when it has hosted the Summit. Indeed, given this background, it seems quite possible that Canada would be among the countries most interested in taking a leadership role in establishing the new group.

Italy would be in a somewhat different position. As the largest member of the group from the European Community it would be well placed to see to it that the Community's views received a proper hearing. It would also, given its extensive economic and political interests on both sides of the Mediterranean, be in a good position to play a "bridging" role between Europe, North Africa and the Middle East.

There is, however, one point that would have to be made clear to Canada and Italy when they were invited to join the new group. Since one of the main objectives of the group would be to lobby for a change in the composition of the Summit more in line with world economic realities, they would have to accept that there was no guarantee that the group

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[3]This provides an excellent example of how difficult it is for self-selected groups to alter and update their membership. If, in 1986, it had been decided to expand the membership of a "world economic council" from five to seven members, it is by no means certain that Canada and Italy would have been chosen. In addition, the agreement painfully reached in Tokyo resulted in an extremely cumbersome and overlapping relationship between the original G5 and the new group of G7 finance ministers.

would support their continued presence at the Summit, if and when this came up for negotiation.

The European Community

The creation of the new group would pose some problems for the European Community (EC) at the political level, since the three largest EC countries would be excluded from membership. In addition, there could be practical difficulties in certain areas, such as trade, where the EC Commission is empowered to negotiate for the Community en bloc.

It is very much to be hoped, however, that the smaller members of the Community would decide to join the new group, in which, with Italy, they would have nearly 20 per cent of the voting power. As "middle rank" powers, their global influence has suffered from the creation of the Summit, in which they are only indirectly represented through the presence of the President of the European Commission at some of the sessions. They should thus very much share the longer run objective of the new group to democratize the summit mechanism, and integrate it into the framework of the global multilateral institutions. Their presence in the new group would be especially desirable in that several of them have a strong internationalist tradition as evidenced by their aid programs[4] — which has to some extent been frustrated by their exclusion from the "inner circle".

The USSR

The USSR is the main country that would be excluded by virtue of its non-membership of either the IMF or the GATT. Other countries which are not currently members of either organization are the Democratic Republic of Germany, Taiwan, and Albania.

Looking ten years or more ahead, it seems quite likely that if Mr. Gorbachev's reforms are at least moderately successful the USSR will eventually join the major

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[4] Out of the 18 members of the OECD Development Assistance Committee, the Netherlands, Denmark and Belgium ranked second, fourth and sixth in terms of their official development assistance as a per cent of GNP in 1985.

international organizations.[5] It would probably be a mistake, however, for the new group to take on all the difficult economic and political issues that would be involved in full Soviet membership until it had firmly established its own position. And, indeed, it might well be best if these issues were settled first in the context of negotiations for membership in the Fund and the GATT.

A good case can be made, however, that the USSR (and other countries in a similar position) should be offered observer status in the new group from the outset. On the one hand, the USSR could gain useful experience of the nature of global multilateral economic cooperation, and a better understanding of the operation of the IMF and the GATT. On the other, the new group might find that it had an important role to play in insisting that a Soviet application to join these institutions should be judged solely on economic grounds, i.e. its willingness to accept the conditions and obligations of membership, and should not be denied on geopolitical grounds.

It also follows that the new group should be structured from the start with eventual full Soviet membership in mind. It is thus suggested that a seat should be reserved for the USSR on the Governing Board, which it could take up, as of right, as soon as it gained admittance to either the IMF or the GATT.

Israel, South Africa and Taiwan

The articles of agreement of the new group should stress its universalist vocation and its responsibility for economic as opposed to political international relations. Israel and South Africa would be eligible for membership because they are members of the IMF, and it should be made extremely difficult, if not impossible, to exclude them. It would also be desirable for Taiwan to become a member. Initially, it could only have observer status, because it is not a member of either the GATT or the IMF. But it might also be necessary to include a clause to ensure that neither observer status nor full membership for Taiwan could be blocked by China on political grounds.

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[5] In 1986, the USSR applied for observer status in the current trade negotiations in the GATT, but was excluded from participating under the terms of the Punta del Este Declaration of September 20, 1986. In June 1988, Vicktor Komplektov, deputy foreign minister of the USSR, announced that the USSR had established "working contacts" with the IMF and the IBRD.

A Mixed North-South Group?

A distinctive feature of the new group is that its membership would cut across the traditional distinction between developed and developing countries. According to the formula proposed below, the developing countries would have around two thirds of the voting power, roughly reversing the present situation in the IMF. In practice, there has been an increasing tendency for informal "mixed groups" of this kind to spring up over the last fifteen years. But to set up a mixed North-South group with the high profile suggested here would mark a definite break with existing arrangements.

Some may dislike the idea for precisely this reason. From the side of the developing countries, there could be concern that the creation of a mixed group could undermine the role of existing developing-country institutions such as the Group of Seventy-Seven and the Group of Twenty-Four. This would be a mistake, it is argued, because the best way to advance the interests of the developing countries is to try as hard as possible to maintain their political unity.

Similarly, on the side of the industrial countries, members of the European Community might feel that the new group could undermine their efforts to promote the political cohesion of Europe and, more specifically, their efforts to develop a joint European approach to their relations with non-Member countries. Equally, the smaller members of the OECD might feel that the new group could undermine the role of that organization, to which they attach considerable importance.

There are several counter arguments. First, the world has been changing so rapidly that the existing groupings are in many ways out-of-date, and are likely to become even more so. On the political side, as the colonial era fades into history, the common front of the "exploited" countries has become increasingly overlaid by regional geopolitical alliances and animosities. On the economic side, there has been an enormous diversification of interests since the early post-war days when economic survival was all that really mattered. Some developing countries have industrialized to the point where their living standards are approaching those of some developed countries. Developed and developing countries with a comparative advantage in the export of agricultural products, or minerals, or oil, have found that they often have more common interests with each other than with other countries in their traditional camp. Some developing countries are major creditors; some developed countries are major debtors. Some aid recipients have become aid donors. And so on.

All this has happened in the relatively short space of 40 years since World War II. And, as argued earlier, there are good grounds for believing that the pace of economic and political change will accelerate over the coming decades.

But even looking a long way ahead, there is one thing that is not likely to change. Fifty years from now the world of nation states will still be made up of big fish and little fish. And, although many of the actors may have changed their roles, trying to ensure that the big fish act in the common good will still be a central problem in the proper management of the system.[6]

The burst of international institution-building after World War II represented the most coherent attempt made so far to deal with this problem. But whatever the successes of these organizations — and they have been many — they have not proved strong enough to bring or maintain key decision-making sufficiently within their compass. And, over the long haul, the problem is the inevitable tendency, in an unstructured system, for insufficient weight to be given to the interest of the many small and medium-sized countries, and for the power structure to fail to respond, in an evolutionary way, to changing economic and political realities.

To sum up, there is now, *de facto,* more difference between countries in the influence they can have on the management of the world economy according to whether they are, or are not, members of the Summit and Group of Five, than according to whether they are developing or developed countries, or whether they are Latin American, European, African, or Asian countries. On the other hand, with the growing diversification of the world economy, there is often, on specific international economic issues, a growing divergence of

[6]This was brought home to the author when interviewing officials from the developing countries involved in the work of the Group of Twenty-Four. In its early years this group played an active role in the discussions on international monetary reform. But like its counterpart among the developed countries, the Group of Ten, its influence has been undermined by the growing importance of the Group of Five. Indeed, what struck me forcibly while doing these interviews was that the frustration and cynicism expressed by these officials from developing countries was so similar to what I had so often heard during the latter part of my career at the OECD from officials of the smaller OECD countries excluded from the Summit. Indeed, this experience was the genesis of the proposal made in this paper.

national interests within each of the traditional geographical or North/South country groupings, and a growing affinity of interests between countries in different groupings.

This is why it is proposed that membership of the new group should be open to all countries excluded from the inner circle, so as to maximize the political pressure behind the objective of bringing key decision-making in the management of the world economy within a more structured framework.

III VOTING POWER

A central feature of the proposal is that decision-making in the new group should be based on weighted voting. Voting power, moreover, should be based directly on a formula using objective economic indicators, under procedures insulated as much as possible from political manipulation. Using the agreed formula, this voting power would be revised regularly and automatically to reflect changes in the structure of the world economy.

We have come a long way from the early post-war days of international institutional-building, and the principle of "one country, one vote" with decision-making by "consensus". As experience in the United Nations and elsewhere has shown, decision-making by consensus in large organizations has many drawbacks. It is difficult to establish priorities, and much time is wasted on peripheral matters. Decisions end up by taking the form of "wish lists" reflecting all the countries' different — and often divergent — interests. It is hard to keep either the budget or the bureaucracy under control, since activities cannot be dropped, and individuals cannot be fired, so long as they have the support of a small minority of members. Thus both in terms of substance and management there is a strong tendency to end up with the lowest common denominator.[7]

[7] An analysis of the work of the Group of 77, which operates by consensus, concluded that: "This system tends to introduce such delicate balance that failure to reach agreement on any one issue delays or even prevents consideration of others. Divergent national interests also encourage the tendency to maintain the bargaining at the broad level of principle and to prevent each regional group from moving at anything more than the pace of the slowest. The balance struck in establishing the Group's position is therefore inherently fragile and introduces a significant element of rigidity into the negotiations. Reluctance to endanger internal compromises preempts effective bargaining and militates against optional and creative solutions." *The North-South Dialogue: Making it Work,* report by a Commonwealth Group of Experts, Commonwealth Secretariat, London, 1982, p. 54.

On the other hand, the experience of the IMF, where decision-making is based, *de jure*, on weighted voting, has been moderately encouraging, despite the fact that membership had increased from the original 38 founder members to 151 countries by March 1988. Moreover, using this voting system, the IMF has been able to develop a quite effective constituency system, both for its Executive Board and for the Interim Committee meeting at ministerial level, in which twenty-two members represent the interests of 151 countries. While seven of the members represent single countries,[8] the remainder are elected by constituencies of anything from four to twenty-four countries.

IMF Quotas

The history of IMF quotas is both fascinating and somewhat tortuous (see Annex). The starting point for the negotiations at Bretton Woods was calculations based on a formula developed by Raymond Mikesell at the request of the US Treasury. Two of the obvious indicators, GNP and trade, were included, plus two others reflecting the financial functions of the new institution: a measure of ability to lend (reserves), and of need to borrow (variability of export earnings). Given the shaky nature of the data available at the time, and the highly political nature of the negotiations, it is surprising that the agreed quotas corresponded reasonably closely to the formula calculations (Annex Table A).

In principle, it has been accepted dogma that the so-called Bretton Woods formula was "only one of the factors entering into consideration and could in no sense be called definitive."[9] In practice, however, as discussed in the Annex, both the original formula, and other formulae developed later by the Fund staff, have played a significant role in the evolution of the structure of Fund quotas, notably in determining the quotas of the more than 100 new members, and in the allocation of "selective" quota increases.

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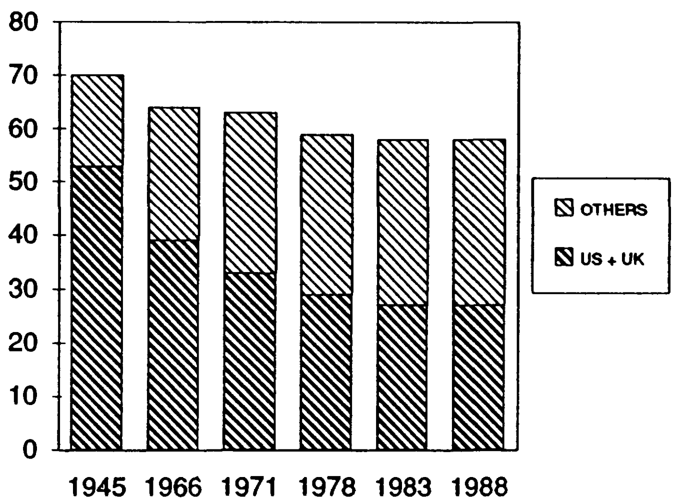
[8]The United States, the United Kingdom, Germany (F.R), France, Japan and Saudi Arabia ("appointed" members) and China (an "elected" member).

[9]Harry Dexter White, *op.cit.,* Volume I, p. 98.

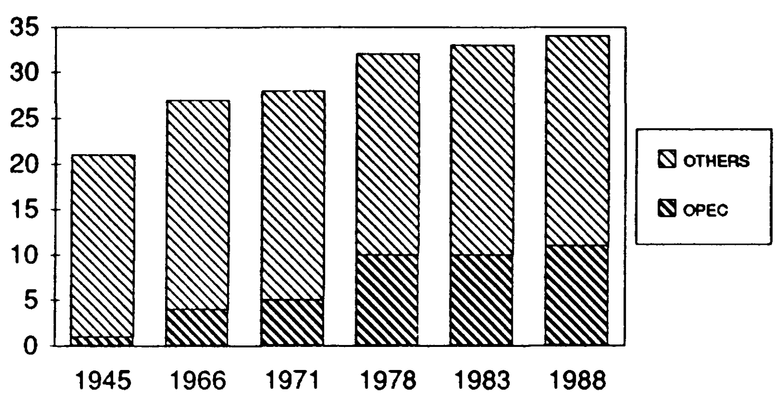
This is no doubt the main reason why, over the years, the IMF has been moderately successful in correcting the biases in the original quotas, and adapting voting power to its expanding membership and the changing realities of the world economy. Thus, from 1945 to 1988 the distribution of quotas changed as follows: the share of the United States and the United Kingdom fell from 53 to 27 per cent, the share of the other developed countries rose from 17 to 31 per cent, and the share of the developing countries rose from 21 to 34 per cent (Graph 1 and Annex Table D).

GRAPH 1. THE EVOLUTION OF IMF QUOTA STRUCTURE: 1945-1988
Percent of total quotas

INDUSTRIAL COUNTRIES



DEVELOPING COUNTRIES



This relative success in adapting the IMF's structure has only been achieved, however, at the cost of long drawn out negotiations, and has become increasingly difficult in recent years as the stakes have got higher. Equally, the existing structure still contains a number of obvious anomalies. In the present context, therefore, it is highly relevant that, as demonstrated below, it is possible to develop a quite simple formula, based on objective economic indicators, which both replicates the main features of the IMF quota structure, and corrects for the more obvious anomalies.

General Principles and Choice of Indicators

The approach developed below is based on three general principles. First, the structure of voting power in the new group should be appropriate not to the specialized functions of a particular organization, such as the IMF, but to the general management of the world economy in all the relevant areas of common interest. Second, while the immediate purpose is to determine voting rights in the new group, the formula used should also produce sensible results if, at some future date, it were used to determine the composition of a reformed economic summit following a merger of the new group with the Group of Five. Third, and more controversially, it is assumed that the present balance of voting power between the developed and developing countries in the IMF — roughly 60/40 — is a reasonably accurate reflection of the realities of the world today in terms of economic and political power.

Taking this as a starting point, attention has been concentrated on three indicators: trade, GNP, and population.

(i) Trade

Trade is an excellent indicator of a country's involvement in the world economy. Reasonably current and accurate figures are available for merchandise trade for most countries. Conceptually, it might be preferable to include all current receipts and payments, but the data are generally less reliable.[10]

A case can also be made that use should be made of some measure of each country's involvement in the world's financial system. The major difficulty is the lack of reliable or comparable data, especially for gross financial flows. Conceptually, moreover, there is no particular case for giving special weight to either creditor or debtor nations in a voting system designed for general use, as opposed to use in an organization involved in borrowing and lending.

(ii) Gross National Product

Gross National Product is the best general measure of a country's current economic strength. One drawback is that its statistical foundation is far less secure than that for trade or population. But under the aegis of the United Nations and the other international organizations there has been a steady improvement in the quality and comparability of national accounts statistics. More generally, the use of GNP data for purposes of determining contributions or voting power in international organizations is already widely accepted.

There are, however, two major problems when it comes to converting GNP (or GDP) as measured in national currencies into a common unit using current exchange rates. The first arises from the massive swings in real exchange rates since the move to flexible exchange rates in 1973. To take one extreme example, Japan's GNP in 1985, converted at the exchange rate on February 25, 1985, was only 30 per cent of that of the United States, while using the exchange rate on February 25, 1988, it was 63 per cent! Some correction can be made for this by averaging the exchange rate over a period of years,[11] but so long as real exchange rates fluctuate as widely as

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[10]The IMF staff now uses current receipts and payments in computing "calculated quotas." The results suggest that this does not change the general structure of quotas very much, but can be important for a number of individual countries. See "The Determination of Quotas and the Relative Position of the Developing Countries in the International Monetary Fund," in *The International Monetary System and its Reform,* S. Dell, editor, North Holland, 1987, Tables A. III. 1 and 2.

[11]In the tables shown here the real exchange rate used to calculate "exchange rate GDP" (GDP-EXR) has been averaged over the years 1983–85 (see notes to Annex Table G, page 101).

TABLE 1

INTERNATIONAL MONETARY FUND: VOTING POWER & ECONOMIC INDICATORS, 1985 (percent share in total IMF)

	Voting Power			Economic Indicators			
	IMF	Formula A	Formula B	Trade	GDP-EXR	GDP-PPP	Population
Developed	60.4	59.3	61.1	73.0	76.5	59.3	16.5
Developing	39.6	40.7	38.9	27.0	23.5	40.7	83.5
Non-G5	59.1	58.6	55.8	53.2	38.1	53.9	88.0
Developed							
G7	47.2	48.3	50.7	56.5	68.3	51.7	13.9
G5	40.9	41.4	44.2	46.8	61.9	46.1	12.0
Developing							
China & India	5.0	10.4	10.7	2.7	4.7	12.2	40.7
Other Asia	5.6	7.7	7.3	6.2	3.3	6.8	15.6
Western Hemisphere	9.3	7.4	6.3	4.1	5.7	9.2	8.7
Middle East	8.2	5.4	5.4	6.9	4.3	3.9	3.6
Africa	7.4	5.3	5.8	3.4	2.7	3.3	11.2
Europe	4.2	4.5	3.5	3.7	2.8	5.4	3.7
All Countries							
Export of Manuf.	63.6	70.3	71.4	75.1	79.4	72.9	59.3
Export of Fuel	13.0	9.6	9.5	9.9	7.9	8.7	11.1
Export of Primary Prod.	23.4	20.1	19.1	15.0	12.8	18.5	29.6
Other Groupings							
Debt-service difficulties	11.5	8.4	8.1	4.5	5.4	8.4	15.7
Low Income	9.7	14.6	15.3	3.8	5.7	15.2	54.8
European Community	28.6	26.5	24.7	37.4	22.6	21.5	7.3
OPEC	11.0	7.3	7.6	8.3	6.1	5.8	8.8
Eastern Europe	2.6	2.9	2.3	2.4	1.8	3.7	2.1
ASEAN	2.8	3.9	3.5	3.8	1.8	3.5	6.5
Small countries	8.9	7.0	6.8	8.2	3.3	3.1	2.6

Notes on voting power:

(1) In the IMF, each country is allocated a base vote of 250 plus one vote for each SDR 100,000 of its quota. These base votes amount to 4.03 percent of the total voting power. In formulae A and B, base votes, equalling the same percentage of total voting power, have been allocated in the same manner.

(2) In formula A, the remaining voting power has been allocated using weights of 45, 45, and 10 percent for trade, purchasing power parity GDP, and population, respectively.

(3) In formula B, the remaining voting power has been allocated using weights of 40, 40, and 20 percent for trade, exchange rate GDP, and population, respectively.

Source: see notes to Annex Tables G and H (page 101).

in the recent past there is no really satisfactory solution.

The more fundamental problem is that it has long been known that using exchange rates to convert GNP figures to a common unit tends to systematically understate the real income of poor countries relative to richer countries, for reasons discussed further in the Annex. An alternative is to use conversion factors based on estimates of "purchasing power parity," i.e. how many units of national currency would be required to buy a similar basket of goods in each country.

Work on developing such purchasing power parities (PPP) started as far back as the 1950s. Progress has been fitful since then because of the high cost of collecting the considerable amount of data required. In the last few years, however, PPP estimates have become available for more than 60 countries (covering 80 per cent of IMF voting power) as the result of a large-scale program of data collection, called the International Comparison Program (ICP). It is, moreover, possible to make rough estimates of PPP for the countries which have not yet been covered, since there is a broadly systematic relationship between real income measured at PPP and at foreign exchange rates. Using such methods, PPP estimates have recently been published for 130 countries by two of the chief architects of the ICP project,[12] and have been used in the calculations discussed below.

(iii) Population

Population, as far as can be determined from the outside, has not entered into IMF staff calculations of quota distribution. While this can perhaps be justified for an institution with essentially financial interests, it hardly seems appropriate for an institutional structure designed to cover world welfare in general. Population is a relevant measure of a country's economic needs. More important, it is perhaps the best single measure of a country's economic potential. As a practical matter reasonably reliable population figures are available for virtually all countries.

There is, however, one caveat. The distribution of population among countries is highly skewed. China, for

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[12] Alan Heston and Robert Summers, "A New Set of International Comparisons of Real Product and Prices for 130 countries 1980–85," *Review of Income and Wealth, March 1988.*

TABLE 2

TWENTY MAJOR IMF COUNTRIES:
VOTING POWER AND ECONOMIC INDICATORS, 1985
(percent share in total IMF)

	Voting Power			Economic Indicators			
	IMF	Formula A	Formula B	Trade	GDP-EXR	GDP-PPP	Population
United States	19.14	18.14	20.87	16.43	35.18	24.32	5.39
United Kingdom	6.63	4.41	4.18	5.98	4.21	3.89	1.27
Germany	5.79	6.50	6.28	9.72	5.88	4.96	1.37
France	4.81	4.60	4.33	5.96	4.64	4.36	1.24
Japan	4.53	7.76	8.52	8.75	12.02	8.54	2.72
Saudi Arabia	3.44	1.15	1.17	1.96	0.90	0.57	0.26
Canada	3.16	3.21	3.20	4.91	3.06	2.34	0.57
Italy	3.13	3.64	3.35	4.74	3.28	3.34	1.29
China, People's Rep.	2.58	6.40	6.39	2.01	2.84	7.54	23.44
Netherlands	2.44	2.14	2.00	3.80	1.18	1.01	0.33
India	2.38	3.96	4.29	0.65	1.82	4.62	17.24
Belgium	2.25	1.74	1.57	3.19	0.72	0.73	0.22
Australia	1.75	1.13	1.21	1.39	1.50	1.09	0.35
Brazil	1.59	2.06	1.60	0.61	1.96	3.41	3.05
Venezuela	1.49	0.51	0.51	0.59	0.47	0.45	0.39
Spain	1.40	1.61	1.35	1.54	1.46	1.92	0.87
Mexico	1.27	1.66	1.32	1.04	1.44	2.36	1.78
Argentina	1.21	0.59	0.51	0.35	0.57	0.80	0.69
Sweden	1.16	1.05	1.04	1.68	0.87	0.64	0.19
Indonesia	1.10	1.42	1.34	0.82	0.76	1.59	3.65

Ranked by first column.
For all other IMF countries, see Annex Table H (page 98).
Sources and methods: see notes to Table 1 (page 52).

example, accounts for 23 per cent of the population of IMF member countries, and China and India for as much as 41 per cent (Table 2). This has some implications for the use of population in a formula to determine voting power.

A first point is that it is politically and operationally undesirable for any single country to wield too much power in an international organization.[13]

Second, it is inevitable that continental countries with enormous and poor populations such as China and India, tend to be overwhelmingly preoccupied with their internal problems of development. Their economies are, moreover, much less influenced by what is happening in the rest of world economy than is the case for most other countries. Simply on these grounds, therefore, and leaving aside other considerations, there is a case for not giving too much weight to population in the determination of voting power.

[13] For this reason, for example, the United States' contribution to the OECD is capped at 25 per cent, although its share in OECD GNP is significantly higher.

Choice of Formula

The share of each country in the IMF total for the four indicators discussed above is shown for various country groupings, and for the twenty highest ranking countries in Tables 1 and 2, and Graph 2.

One point stands out that has bedevilled quota negotiations in the IMF for the past twenty years. For both of the two indicators that were included in the original Bretton Woods formula trade, and GNP converted at current exchange rates the share of the developing countries is way below their actual share in IMF voting power. This became a vexed matter when, in the aftermath of the first oil crisis, there was a widespread consensus that the voting power of the developing countries should be increased. Various ingenious new formulae were proposed to justify such an increase, but given what the basic economic statistics being used were showing, they were all intellectually dubious.[14] Thus, in the event, the most significant increase in the voting power of the developing countries came about, not as a matter of right, but as a deliberate political concession on the part of the developed countries. (See Annex, page 83).

The creation of the new group would provide an opportunity to correct this situation, and provide a much firmer basis for dealing with this subject in the future. One step in this direction would be to use "purchasing power parity" GNP, for which the share of the developing countries is 40.7 per cent, compared with 23.5 per cent for "exchange rate" GNP (Table 1).[15] Nevertheless, if only trade and GNP are used, this would still leave the share of the developing countries well below 40 per cent since their share in trade is only 27 per cent. Once it is agreed, however, that some weight should be given to population, the solution is straightforward. Thus, a formula giving equal weights (45 per cent) to trade and GDP-PPP, plus

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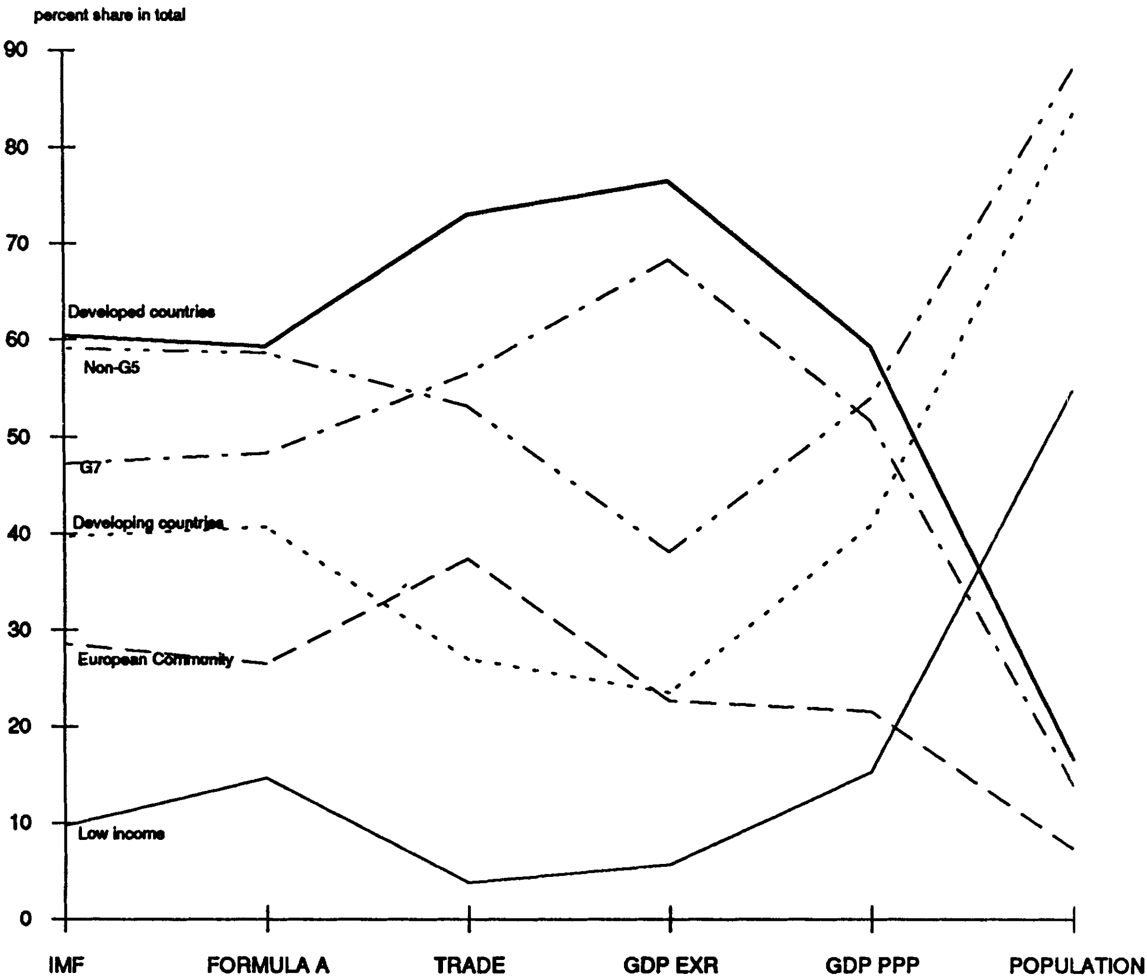
[14]For a fascinating attempt to find intellectually respectable ways of increasing the share of the developing countries within the framework of the Bretton Woods formula, see the paper in the Sidney Dell volume referred to earlier.

[15]This was first proposed by Ricardo Arriazu, Alternate Director to Carlos Massad, in a paper presented to the IMF Executive Board in November 1969. At that time, however, reasonable estimates were only available for a very limited number of countries.

GRAPH 2
INTERNATIONAL MONETARY FUND: VOTING POWER AND ECONOMIC INDICATORS
1985



a 10 per cent weight to population, and incorporating basic votes similar to those used in the IMF, yields a developing country share very close to the existing level.

This formula, referred to as "Formula A" is used throughout the remainder of this paper. Since, however, there may be doubts about the use of GDP-PPP, results are also shown in Tables 1 and 2 for a second formula using GDP-EXR, with weights of 40, 40 and 20 per cent, respectively, for trade, GDP and population (formula B). This produces broadly similar results, but in the author's view is less preferable for the reasons discussed above.

Basic Votes

In the original Bretton Woods Agreement a compromise was struck between the financial objectives of the IMF and the principle of "one country, one vote" prevalent at the time, by giving each country 250 basic votes plus one vote for each $100,000 of its quota. In the early 1950s, these basic votes amounted to as much as 15.6 per cent of total voting power. But since they have never been revised, their importance has steadily declined as quotas have been increased, and now account for only 4 per cent of total voting power.

At various times proposals have been made to increase the basic votes, mainly because this would increase the voting power of the more numerous developing countries. But since many of the countries who have joined the IMF in recent years have been extremely small, it has not been very easy to justify this proposal.[16]

More generally, in the context of the new group, the relevant issue should not be the voting power of the developed versus the developing countries, but rather the relative voting power of small versus large countries, regardless of their present state of development. For simplicity, in formulas A and B, basic votes have been allocated equally to each country amounting to 4 per cent of total voting power, as at present in the IMF. This is a matter which might, however, deserve further consideration.

Comparison with the IMF

The differences between voting power in the IMF and voting power based on formula A can be seen for broad groups of countries in Table 1. The main features are as follows:

- The share of the developing countries rises slightly, by one percentage point.
- The share of low income countries rises sharply, essentially because of the use of purchasing power parity GNP.

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[16]As can be seen from Annex Table H (page 98), basic votes already constitute by far the major element in the voting power of the 20 smallest members of the IMF.

TABLE 3

MAJOR DIFFERENCES BETWEEN FORMULA "A" AND IMF VOTING POWER

Country	IMF Weight	Formula A	Absolute diference	Percent difference
		INDUSTRIAL COUNTRIES		
Increase				
Japan	4.53	7.76	3.23	71
Germany	5.79	6.50	0.71	12
Italy	3.13	3.64	0.51	16
Decrease				
United Kingdom	6.63	4.41	−2.22	−34
United States	19.14	18.14	−1.00	− 5
Australia	1.75	1.13	−0.62	−35
Belgium	2.25	1.74	−0.50	−22
Netherlands	2.44	2.14	−0.31	−13
		DEVELOPING COUNTRIES		
Increase				
China, People's Rep.	2.58	6.40	3.83	148
India	2.38	3.96	1.58	66
Korea	0.52	1.29	0.77	148
Singapore	0.13	0.71	0.59	469
Brazil	1.59	2.06	0.47	30
Mexico	1.27	1.66	0.40	31
Iran, I.R. of	0.73	1.10	0.37	51
Indonesia	1.10	1.42	0.32	29
Decrease				
Saudi Arabia	3.44	1.15	−2.30	−67
Venezuela	1.49	0.51	−0.98	−66
Argentina	1.21	0.59	−0.62	−51
Kuwait	0.70	0.32	−0.38	−54

Only countries with a difference of more than 0.3 percent of total voting power are shown. Source: Table 2 and Annex Table H (pages 54, 98).

- Regionally, among the developing countries, the share of Asia rises because of the inclusion of population, while that of both Latin America and Africa declines, reflecting in part their relatively less good economic performance vis-a-vis Asia.
- The share of OPEC, and hence the Middle East, declines, for reasons discussed further below.

The major differences for individual countries are shown in Table 3. There are significant changes among the industrial countries, which clearly reflect the failure of the quota negotiations in the IMF to take full account of the changes in the economic power structure since World War II. The combined share of Japan, Germany and Italy rises by nearly 4.5 percentage points, the main counterpart being a further reduction in the voting power of the United States and, especially, the United Kingdom.[17] The share of the Netherlands and Belgium, which have benefited in the past from the high share of trade in their GNP, declines somewhat.[18]

Broadly speaking, these changes all seem to go in the direction of correcting anomalies in the IMF's voting structure. The large increase in the share of Japan is particularly appropriate, given its increasingly important role in international economic affairs.

On the side of the developing countries, increased shares result primarily from giving some weight to population (China, India, Brazil, Mexico, Iran, and Indonesia) and updating to take into account excellent economic performance (Korea, Singapore). The large increase for China also reflects the fact that from 1949 to April 1980 it was represented in the IMF by the authorities of Taiwan, during which period there was no increase in its quota as agreed at Bretton Woods.

The main decrease in shares is for OPEC countries a drop of 3.5 percentage points for Saudi Arabia, Venezuela and Kuwait taken together. This is a case where voting power in the IMF reflects it financial interests. The major increase in these countries' quotas came after the first oil crisis, when the IMF was involved in recycling the OPEC surpluses. In addition, after the second oil crisis, Saudi Arabia's quota was doubled, essentially in return for its agreement to lend large sums to the IMF at a time when it was short of funds (in addition Saudi Arabia was given the right to appoint a director to the Executive Board). It would not seem sensible to incorporate these special considerations into the voting structure of the new group, bearing in mind that the oil producers' important share in world trade is already given considerable weight in the proposed formula.[19]

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[17] In the case of the United States a key factor is the use of GDP-PPP instead of GDP-EXR.

[18] Australia seems to have struck a good bargain when it negotiated its quota with the IMF in the early days, since its IMF voting power still exceeds its share in any of the indicators shown; so its share also declines (See Annex).

[19] The only other significant decrease is for Argentina, which essentially reflects its relative economic decline during the post-War period.

Summary

No special claim is made for the voting formula developed in this section; its main merit is that it is reasonably simple. What is claimed, is that these calculations show that it should be quite possible to develop a formula for voting power in the new group, based directly on economic indicators, which would produce results as sensible — and in certain important respects more sensible — than those achieved through lengthy and tortuous negotiations in the IMF.

Clearly, it would be a tough job to reach agreement on the formula to be used. Given this, it would be important to ensure that it was insulated from subsequent political manipulation. A very high majority vote should be required for any changes in the formula. And a panel of experts should be established to implement it, selected using a procedure designed to maximize the technical competence and impartiality of its members. At regular intervals, say every three years, this panel would be required to update the distribution of voting power on the basis of new figures.

IV THE GOVERNING BOARD AND THE CONSTITUENCY SYSTEM

Size of the Board

Probably the most difficult aspect of the negotiations to establish the new group would be an agreement to keep the size of the Governing Board down to a reasonable size. Almost always, when there are problems about representation, the easiest way out, is to increase the number of seats. Thus, for example, the Executive Board of the IMF has grown from twelve members to twenty-two, and will presumably rise further if and when the USSR and the other eastern European non-members were to join.

It is often argued that the IMF Executive Board works effectively, despite its relatively large numbers. It should be borne in mind, however, that the Executive Directors work together on a full time basis in Washington and thus have ample opportunity to get to know each others' views and interests. Experience in the IMF Interim Committee, on the other hand, suggests that a body of twenty-two members is far too large for effective discussion between national officials who only meet relatively infrequently. Thus, for example, discussions of the world economic outlook in the Interim Committee of the IMF have inevitably become a sequence of twenty-two set speeches without any genuine interchange. Experience in the OECD, with twenty-four members, has been very similar. Real discussion in plenary sessions is only possible if a significant number of participants agree to keep quiet. This contrasts with experience in OECD's Working Party 3, with ten members, in which many lively and fruitful discussions have taken place.

Put bluntly, experience suggests than in groups of ten or less, where real interchange is possible, people can be persuaded to change their mind, while in larger bodies this rarely happens.[20]

A first approach to determining the size and composition of the Governing Board is to look at the

TABLE 4.

COMPOSITION OF THE NON G-5 GOVERNING BOARD: REGIONAL GROUPINGS

Region/1	Voting Rights (formula A)	Number of Countries	Number of Seats on the Governing Board			
			7	8	9	10
Europe	33.4	23	2 (2.34)	3 (2.67)	3 (3.01)	3 (3.34)
Asia & Oceania	32.0	30	2 (2.24)	3 (2.56)	3 (2.88)	3 (3.20)
Western Hemisphere	18.0	34	1 (1.26)	1 (1.44)	2 (1.62)	2 (1.80)
Africa	8.5	50	1 (0.60)	1 (0.68)	1 (0.77)	1 (0.85)
Middle East	8.1	15	1 (0.57)	1 (0.65)	1 (0.73)	1 (0.81)
Total	100.0	152	7	(9)	(10)	10

Figures in parentheses are the unrounded number of seats.

1. Includes present members of the IMF and/or the GATT. Europe includes Turkey, Africa includes Egypt. Voting power from Table 5, second column.

2. In these two cases the sum of the rounded figures, using conventional rounding techniques, add up to more than the number of seats on the Board.

[20]The report by a Commonwealth group of experts, referred to earlier, suggested that a small group of eight members be established to direct the activities of the Group of Seventy Seven (*op.cit.* p. 54).

breakdown of voting power between the five main geographical regions as shown in Table 4.[21] The unrounded figures in the parentheses show how close the representation of each region would come to a round number in a Governing Board of from seven to ten members. A board of eight or nine members turns out to be awkward from this point of view. A board of seven members would be possible — and highly desirable — with each region represented, but only if the three largest regions, Europe, Asia and Oceania, and the Western Hemisphere, were prepared to accept being somewhat under-represented in relation to their voting power, to the benefit of the two regions with the fewest votes, Africa and the Middle East. My own strong preference would be for this solution. But in view of the amount of diversity within regions, it is probably more realistic to think in terms of ten members, which would allow for three members each from Europe, and Asia and Oceania, two from the Western Hemisphere (which includes Canada), and one each from Africa and the Middle East.

As suggested earlier, an eleventh seat could be reserved for the USSR. If it joined, its share in the total voting power of the new group would be around 12 per cent (Table 6).

The Constituency System

In practice, it is extremely unlikely that the constituencies would split up exactly on regional lines as shown in Table 4. In the IMF, for example, Spain has joined a Latin American constituency, Pakistan has joined a Middle Eastern constituency, and Israel has joined a constituency headed by the Netherlands. It is also very likely that the composition of the constituencies would evolve through time as voting power changed and as other economic and political affinities emerged.

It is not really sensible, at this stage, to examine how countries would be likely to group together in the regions with more than one seat on the Board. In Europe, there could be two European Community constituencies, and another made up primarily of Eastern European and "neutral" countries. In Asia there might be two constituencies formed under the leadership of India and China, and a third "Pacific Rim"

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[21] Voting power in the new group for various country groupings and for the larger individual countries is shown in Tables 5 and 6, second column.

TABLE 5.

VOTING POWER IN VARIOUS REGIONAL AND OTHER GROUPINGS
(percent share in total)
FORMULA A

	IMF Membership	NON-G5 IMF + GATT	NON-G5 All Countries	All countries
Developed	59.3	32.2	27.2	52.3
Developing	40.7	67.8	72.8	47.7
Asia & Oceania	27.3	32.0	28.2	25.6
Western Europe	30.3	26.9	22.7	27.3
USSR & Eastern Europe	2.9	6.5	20.0	12.4
Western Hemisphere	28.8	18.0	15.0	25.2
Africa	5.7	8.5	7.3	5.2
Middle East	4.9	8.1	6.9	4.3
Other Groupings				
OECD	60.7	34.7	29.2	53.6
European Community	26.5	18.7	15.8	23.0
OPEC	7.3	11.9	10.1	6.4
ASEAN	3.9	6.3	5.3	3.4
Scandinavia	2.9	5.0	4.2	2.6

Note on country groupings:
Column 1 includes all countries who were members of the IMF on March 31, 1988.
Column 2 includes the above countries plus countries that are Contracting Parties to the GATT, excluding G5 countries.
Comuns 3 and 4 include all countries for which data are available, i.e. effectively the whole world, with the G5 countries excluded in Column 3.
Turkey is included in Western Europe, Egypt in Africa.

constituency including Australia and New Zealand. In the Western Hemisphere, Canada might join a constituency including Central America and the Caribbean, with a second South American constituency.

Normally, when it came to decision-making, each member of the governing board would cast his vote as a block, weighted according to the total voting power of his constituency, as in the IMF. Insofar as possible the rules and procedures should be designed to promote compromise and consensus within each constituency. But there should also be provisions such that under clearly defined and relatively rare circumstances there would be a "free" vote, with countries allowed to cast their vote individually rather than through their constituency.

TABLE 6

VOTING POWER OF INDIVIDUAL COUNTRIES IN VARIOUS COUNTRY GROUPINGS
(Formula A, percent share in total)

	Present IMF	NON-G5 IMF + GATT	NON-G5 All countries	All countries
United States	18.14	—	—	15.64
Soviet Union	—	—	12.31	7.62
Japan	7.76	—	—	6.72
Germany	6.50	—	—	5.66
China, People's Rep.	6.40	9.85	8.18	5.62
France	4.60	—	—	4.00
United Kingdom	4.41	—	—	3.83
India	3.96	5.93	4.94	3.49
Italy	3.64	6.26	5.23	3.16
Canada	3.21	5.54	4.67	2.80
Netherlands	2.14	3.66	3.13	1.87
Brazil	2.06	3.44	2.77	1.78
Belgium	1.74	2.98	2.55	1.53
Mexico	1.66	2.81	2.29	1.44
Spain	1.61	2.75	2.26	1.39
Indonesia	1.42	2.26	1.88	1.24
Korea	1.29	2.18	1.84	1.13
Saudi Arabia	1.15	1.95	1.67	1.00
Australia	1.13	1.94	1.62	0.98
Iran, I.R. of	1.10	1.85	1.52	0.95
Sweden	1.05	1.79	1.52	0.91
Poland	1.02	1.73	1.41	0.88
Switzerland	—	1.70	1.45	0.87
Germany Dem. Rep.	—	—	1.37	0.83
Hong Kong	—	1.61	1.38	0.83
Taiwan	—	—	1.31	0.80
Czechoslovakia	—	1.53	1.27	0.78
South Africa	0.85	1.42	1.18	0.74
Yugoslavia	0.77	1.31	1.08	0.67
Turkey	0.76	1.26	1.03	0.66

Ranked by last column.
For country groupings, see notes to Table 5.

Again, as in the IMF, there is no reason why the same country should represent a given constituency on a permanent basis, especially as, with the possible exception of China, all members of the Board would be representing more than one country. In many cases, constituencies might decide to establish a system of rotation, covering seats on both the Governing Board and the subgroups, as well as the nationality of the teams of national officials servicing these bodies. In the same way the meeting place for regular meetings of the Governing Board at the level of heads of state might rotate between the five main regions.

To prepare the meetings of the Governing Board, and coordinate and supervise the work of the sub-groups, an Executive Committee should be created composed of "personal representatives of the heads of state," with ministerial rank. Voting power and constituencies would be the same as in the Governing Board, and it would probably be best if, in this body, the country composition were also the same.

As far as the sub-groups are concerned, it may not necessarily be desirable to use the same formula for voting power or have the same constituencies. In the subgroup dealing with monetary affairs, for example, the formula could include financial indicators similar to those used in the Bretton Woods formula, and in the subgroup dealing with trade a significantly larger weight might be given to trade. If different voting formulae were used in the subgroups, however, it would be desirable to have a rule whereby decisions taken in these subgroups had to be ratified by the Executive Committee or the Governing Board. This would also help to encourage a consistent approach in the different areas covered by the sub-groups.

A constituency system, for all its merits, is not a panacea. Members of large heterogeneous constituencies are bound to feel at a disadvantage vis-a-vis countries in single-member or small and homogeneous constituencies. And there can be no doubt that the constituency system can come under great strain when important economic and political national interests cut across the composition of one or more constituencies. This can and does occur, in particular when regional political animosities come into conflict with common economic interests (as in the case of Israel, South Africa and Iran for example). In such cases the use of the "free vote" provisions discussed above may be unavoidable.

To paraphrase Churchill once again, the constituency system may be the worst solution, except for all the others. However the world is run, the babel of the voices of the more than 150 independent nation states will somehow have to be distiled down to the number at which reasonable discourse becomes possible. The only question is whether this process of distillation is based on some objective criteria within a structured framework, or is simply left to be determined by the accidents of history, power and influence.

V THE MANDATE

The mandate of the new group should cover all the major issues pertaining to the management of the world economy and the activities of all the relevant international organizations. As already noted, sub-groups would be created, with not more than ten or eleven members, to deal with monetary affairs and the IMF, trade and the GATT, development and the World Bank, and so on.

With this institutional framework, the objectives of the new group would be as follows:

1. To loudly and persistently lobby for representation in the G5/Summit. The new group would announce from the outset that, if invited, it would be prepared to designate one or more of its members to participate in the Group of Five and Summit meetings.
2. To develop joint positions on all the main issues pertaining to management of the world economy — exchange rates, interest rates, finance, debt, trade, etc.
3. To demonstrate, by its own mode of operation, the possibility of developing an efficient (i.e. small) but representative vehicle for discussion and negotiation on the major issues of international economic cooperation.
4. To resist, by all possible means, further erosion of the multilateral institutions resulting from the increasing tendency of the Group of Five and the Summit to take key decisions outside the existing multilateral framework. This could include using the considerable influence that the group would have within these organizations to try to ensure that relations between them and the Group of Five and the Summit were not just a one-way street, as is to a large extent the case today.
5. To develop proposals for a major reform of the existing international institutional framework.

The mandate should lay out very clearly the group's essentially *political* objective of providing a counterweight to the Group of Five. In doing so, however, it should be stressed that the aim is not to create a new division between "them" and "us", but rather to mobilize pressures to narrow and eventually bridge the gap. Thus the ultimate aim of the new group would be to make itself redundant.

It would no doubt be a mistake to spell out the specifics of how this might be achieved in detail. Conceptually, the ultimate objective would be a system of decision-making for the management of the world economy organized in concentric circles, with all countries in the outer circle, and a sequence of smaller circles leading to an inner circle resembling today's Summit. In practice the circles are likely to overlap, and differ according to the institution and subject matter in question. Equally, there could well be transitional stages. One possibility would be to resuscitate meetings of heads of state in a wider group of the kind that took place in Cancun in October 1981, and hold them periodically. Another would be for joint meetings of the Summit and the Governing Board of the new group, either or both at the level of heads of state and ministers.

But the central objective would have to remain getting the major countries to agree on a structured framework for decision-making, as far as possible within existing or reformed international organizations, with the representation of countries and groups of countries based on objective indicators of their relative importance in the world economy.

A second feature of the proposed mandate is that it should cover all the main issues pertaining to management of the world economy, including in particular both finance and trade. This will not be an easy task. Experience has shown that it is often difficult to coordinate positions on trade and finance at the national level. At the international level it has proved even more difficult, in part because the respective responsibilities have been entrusted to two separate and very different organizations, the IMF and the GATT.

It would nevertheless be important for the new group to develop a strong capability on trade issues and not become too IMF-oriented. The hard reality is that the great majority of the potential members of the new group have become increasingly vulnerable to protectionist actions by members of the Group of Five, and this could get worse. Equally, many countries in the new group are experiencing serious debt servicing problems which in the end can only be overcome by export-led growth. As it is, when these countries are (rightly) told by the IMF that they must put their own house in order if they want to get financial relief, they get little help from the IMF when they (rightly) complain that their difficulties arise in part from protectionism and ill-conceived agricultural policies in the major countries.

It would therefore be a good idea to give some priority to setting up a high-powered sub-group to deal with trade issues. Its principal role would be to develop positions for the Uruguay Round of multilateral trade negotiations. But it should also be equipped to take up the case of any of its members involved in a current trade dispute with one of the major countries. At the same time, it would be important to try to avoid trade issues becoming compartmentalized and treated separately from the broader macroeconomic issues. As noted, this would be a particular responsibility of the Executive Committee, which might invite ministers of both finance and trade to attend some of its meetings.

Exchange-rate issues should also be covered explicitly in the mandate. In practice, this might not be all that popular, since this is an area in which small countries have greater freedom of action than large countries. Indeed, since February 1985 quite a number of the potential members of the new group have been taking a "free-ride" on the dollar's decline, effectively devaluing their currencies on a trade-weighted basis so as to promote export-led growth, at a time of slow growth in the world economy as a whole. This has not escaped the attention of the Group of Five, as might be expected given its preoccupation with reducing the US trade deficit.

Thus, in this area there is an important common interest between the new group and the Group of Five, and, for once, the G5 is the plaintiff. So there is a good case to include it in the mandate on purely tactical grounds. Beyond this, the substantive issue is whether the smaller countries, notably the Asian NICs, prefer to see their exchange rate policies increasingly subject to bilateral pressures exerted by the major countries, especially the United States, as seems likely, or rather subject to closer scrutiny in the multilateral context of the IMF, supported by what would hopefully be a coherent policy worked out by the new group on what should be the smaller countries' rights and obligations in a "managed" system of exchange rates for the major countries.

The last item in the mandate set out above was reform of the existing international organizations. This is not an issue that arouses great interest at the present time. Many national and international officials profess to seeing little wrong with the existing institutions. More generally, there is a widespread feeling that the real obstacles to better management of the world economy are political, rather than institutional. In this view, the problems would be much the same even with a better set of institutions, and thus it would be a mistake to expend the great amount of time and effort that would be involved in a major reform exercise.

There is a lot in this latter argument. There is, however, one good reason to include this subject in the new group's mandate. Almost by definition, small countries have a greater interest in strong multilateral institutions than large countries. Indeed, the larger the country the greater the temptation to try to achieve its ends through bilateral pressure outside any formal institutional framework. Thus to the extent that a case can be established for reform, the new group would have a strong incentive to develop appropriate proposals.

VI SECRETARIAT

Since the ultimate aim of the new group would be to make itself redundant, it would be a mistake for it to establish a permanent secretariat.

In the first instance, it should try to make maximum use of the analytical, technical and administrative expertise of the existing international organizations. In this it would be helped by the strong political and administrative position it would have vis-a-vis these organizations by virtue of its (nearly) universal membership. It should, in particular, insist on having equal access to all documentation by these organizations made available to officials of the G5/G7 countries.

The new group would, nevertheless, need its own secretariat, especially to provide a vehicle for communication and coordination between its numerous and diverse membership. One solution would be the technique used by SELA[22] whereby medium level national officials are seconded, full time, to the secretariat for a period of two to four years. Each constituency in the Governing Board would then be responsible for ensuring competent and balanced representation for its members on the secretariat. An agreed system of rotation, worked out in advance, would help to maintain balance and facilitate career planning. To avoid bureaucratisation and maximize efficiency, personnel and budgetary decisions should — at least in the last resort — be based on weighted voting.

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[22]The Sistemo Economica Latinamericano.

The secretariat would need to work out of several different offices, with at least one in Washington and one in Geneva. It would therefore need its own budget, especially in view of the need for extensive travel and a strong communications network. Coordination within each constituency would be facilitated if the regional Economic Commissions of the United Nations could be persuaded to provide office space and technical facilities for use by the secretariat of the new group.

VII LONGER-RUN OBJECTIVES

Institutional Reform

To the tidy mind, the present institutional framework for international economic cooperation is far from perfect. There is the UN system, with specialized agencies covering many of the relevant subject matter areas and geographical regions,[23] but which has been unable to put its act together when it comes to decision-making on concrete economic issues. There are the largely autonomous agencies with a global vocation, most notably the IMF, the GATT and the World Bank. There are the numerous regional organizations (the European Community, EFTA, ASEAN, the OAS, SELA, etc.). There is a rich man's club in Paris (the OECD). There is a central bankers' club in Basle (the BIS). And then there are the "Gs": the G77, G24, G10, G7, the G5, and, some believe, a G3 and a G2. The inevitable consequence is both overlapping competence and divided responsibilities; too many meetings for national officials with more important things to do; and a considerable amount of unnecessary bureaucracy and institutional infighting.

The following discussion concentrates on three major weaknesses in the present institutional framework: the weakness of the GATT; the failure to deal effectively with issues that lie at the inter-section of the responsibilities of different organizations; and the lack of a constitutional linkage between these organizations and the activities of the G5/G7.

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[23]For example, industry (UNIDO), agriculture (FAO), labor (ILO), development (UNDP), trade and commodities (UNCTAD), the environment (UNEP); and the Economic Commissions for Africa (ECA), Asia and the Pacific (ESCAP), Europe (ECE), Latin America (ECLA), and Western Asia (ECWA).

Weakness of the GATT

Through an accident at birth, the GATT is a much weaker institution than the IMF and the World Bank. Formally, indeed, it is only a "contract" not an institution. Many proposals have been made to remedy this situation, several of which are now under active consideration in the context of the Uruguay Round.[24] As far as institutional matters are concerned, these include:

- Creation of standing bodies of limited membership, using the constituency system, at both the ministerial and official level, similar to the Executive Board and the Interim Committee of the IMF.
- Regular procedures for the examination and "surveillance" of each member country's trade-related policies and actions.
- Increased power for the Director-General and the secretariat request information, to raise issues, and set agendas.

As discussed further below these proposals would raise important issues for the Group of the Non-Five.

Interlinkage

The basic assumption underlying the institution-building immediately after World War II was the existence of unitary national states. From this assumption it followed that any conflict between, for example, a country's trade interests and its financial interests, would be resolved at the national level, so that the relevant issues could be negotiated with other countries in separate, geographically distant, intergovernmental organizations charged with responsibility

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[24]See, in particular, Sylvia Ostry, "Interdependence: Vulnerability and Opportunity," Per Jacobson Lecture, IMF, Washington, DC, September 27, 1987; *Trade Policies For a Better Future: Proposals for Action,* a report by a group of independent experts, GATT, Geneva, March 1985; Miriam Camps and William Diebold, Jr., *The New Multilateralism,* Council on Foreign Relations, New York, 1983; and Richard Blackhurst, "Strengthening GATT surveillance of Trade Policies," forthcoming in Meinhard Hilf and Ernst-Ulrich Petersman (editors), *The New GATT Round of Multilateral Trade Negotiations: Legal and Economic Aspects,* Kluwer Law and Taxation Publishers, Deventer, the Netherlands.

for the different functionally defined areas of national interest.

This has proved a major mistake. First, since conflicting domestic interests are often not reconciled at the national level, representatives of the same country find themselves taking different positions on the same issue in different organizations. Second, many of the most important and difficult issues today lie at the *interface* between, for example, finance and trade, trade and agriculture, industry and development.

This weakness in the present institutional framework became increasingly apparent with the advent of floating exchange rates. Wide swings in real exchange rates have had a major impact on trade and production, generating trade restrictions, industrial subsidies, cartels (via "voluntary" export restraint agreements), and various other undesirable features in countries' industrial, agricultural, and regional policies.

The importance of the two-way linkage between appropriate exchange rate, interest rate and fiscal policies, on the one hand, and appropriate microeconomic policies to promote structural change, on the other, is by now widely recognized.[25] But little progress has yet been made in solving the major institutional problems that it creates. In various formats, and at various levels, there have been joint meetings of those responsible for finance and trade, but these have generally led to little more than mutual recrimination. To cite just three examples of the kinds of problem that remain unresolved:

1. For the first time, in the Uruguay Round, it was agreed that all agricultural policies which affect trade should be included in the GATT negotiations. The many restrictions on trade in agricultural products are, however, only the by-product of domestic agricultural policies, which are themselves a by-product of domestic social, political and environmental considerations. The GATT has no expertise in these areas. The OECD, on the other hand, which is the only genuinely multidisciplinary international economic organization, has built up much of the relevant expertise — but has a quite different membership.[26]

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[25] Ostry (op cit), and Structural Adjustment and Economic Performance, OECD, Paris, 1988.

[26] It is thus no accident that one of the key empirical tools which will be needed in the agricultural trade negotiations, the concept of "Producer Subsidy Equivalents", was developed at the OECD.

2. In recent years the IMF and the World Bank have been giving increased emphasis to trade policy reform as one of the conditions for granting financial assistance. But neither institution is well equipped to monitor commitments to such reform on a longer-term basis, nor to codify them on a contractual basis in a multilateral framework. The GATT, on the other hand, which is responsible for administering the trading rules, is often not informed of the precise nature these commitments, for reasons of confidentiality. More fundamentally, the IMF and the World Bank are — rightly — more concerned about whether the measures concerned make good economic sense, while the GATT, as presently constituted, is only mandated to consider their legality under its Articles.
3. Given their present financial difficulties, many developing countries find themselves under considerable pressure in the trade policy field, both because of their need to borrow from the IMF and the World Bank, and because of their need to obtain an exemption under the Articles of the GATT to impose trade restrictions for balance of payments reasons. This is no doubt all to the good, but it leads to a significant asymmetry in the system, since there are no similar pressures on the industrial countries, whose trade policies are far from blameless, especially vis-a-vis the developing countries.

The G5/G7 and the Summit

The G-5/G-7 appear to be moving, albeit tentatively, toward a "managed" system of exchange rates between the major currencies.[27] This may prove to be a flash in the pan. If not, it will have profound institutional consequences.

Managing exchange rates is not simply, or even primarily, a matter of official intervention in the currency markets, but of allowing exchange-rate considerations to play an important role in the formulation of monetary policies and — to a somewhat lesser extent — fiscal policies. Obviously,

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[27] See Yoichi Funabashi, *Managing the Dollar: From the Plaza to the Louvre*, Institute for International Economics, Washington DC, May 1988.

however, the monetary and fiscal policies of the G5 countries have a major impact on the world economy, and, by the same token, decisions concerning these policies should take into account conditions prevailing in the world economy.[28] There is therefore the prospect that, we could be moving, de facto, into a world in which decisions of central importance to the world economy are discussed and taken by a body with no constitutional linkage to the existing institutional framework.

Even if this does not come to pass, it is already the case that many of the problems discussed by the G5/G7 and the Summit fall within the competence of one or more of the relevant international organizations, as does the responsibility for carrying through the proposed solutions. The Summit is not, however, empowered to give instructions to these organizations, nor are they accountable to it.

The usual answer is that this does not, in practice, create problems, because there are close consultations with these organizations during the preparation of G5/G7 and Summit meetings and during the follow-up to any decisions taken. Experience suggests, however, that this is not enough. The truth is that, in political terms, international organizations are in a subservient position vis-a-vis the Summit, and cannot help competing among themselves for its favours. There is thus no assurance that the Summit will take the right decisions as to who should do what, with what resources, and within what time frame.[29]

This is especially the case with respect to problems of the type discussed above which lie at the intersection of the responsibilities of different international organizations and different national ministries, since the solution almost inevitably involves institutional innovation unwelcome to one or more of the organizations involved. But these are precisely the kind of problems that the G5/G7 and the Summit cannot deal with effectively because of their lack of legitimacy vis-a-vis

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[28]See Marcus Miller and John Williamson, *Targets and Indicators: A Blueprint for the International Coordination of Economic Policy,* Institute for International Economics, Washington DC, September 1987.

[29]To give only one minor and amusing example: at the first Tokyo Summit, in 1980, the heads of state agreed on quantitative ceilings for their oil imports over the next five years. It was only afterwards that it was discovered that some of the delegations had been working with metric tonnes and others with long tons which took quite a lot of sorting out afterwards in the OECD's International Energy Agency.

the organizations concerned. In a sense what has happened is that the G5/G7 and the Summit have usurped powers, de facto, which they cannot exercise effectively because, *de jure,* they do not possess them.

The Summit poses rather similar problems looked at the other way around, from the point of view of the international organizations. They have no constitutional right to participate in the discussions or in the preparation of the meetings. True, the Managing Director of the IMF participates in some of the meetings of the G5/G7.[30] But since he is only there "by invitation", it would be hardly surprising if he felt the need for considerable caution in criticizing the policies of those sitting around the table, and for considerable restraint when defending the interests of other countries not present in the room.

The same inhibitions have a wider influence. The more successful, and hence the more important, the G5/G7 and the Summit become, the more the international organizations will try to enlist their political support to advance their own institutional interests, and in doing so, be tempted to compromise their objectivity and their responsibility to the world community as a whole.

A common response by officials of the G7 countries to this line of criticism is to say: "We are members of these organizations, we participate in all the discussions, we read all the papers, we know what the other countries think. So what's the problem? The problem is that this leaves out of account the *internal dynamics* of the preparation of international meetings and the decision-making process at such meetings. It is only by participating fully in this process, as of right, that officials of the smaller countries, and of the international organizations concerned, can properly grasp the political obstacles to agreement, can see at close hand the stumbling blocks arising from differences on matters of fact and analysis, and can thus play positive, constructive — and quite often decisive — role as "neutral" observers and intermediaries.

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[30] Symptomatically, he was not invited to the Plaza meeting in September 1985.

What can be done?

There is no simple solution to these institutional weaknesses, since they are a faithful reflection of an untidy world. Over the longer run they can only be remedied by genuine institutional reform, involving the negotiation of new or amended charters, articles of agreement, conventions, etc.; the downgrading or elimination of some organizations; and the strengthening — and possibly the merging — of others.

It would no doubt be a mistake for the new group to tackle the need for such fundamental reform head on from the start. The issues involved are complex and controversial, and, at present, lack political sex appeal. By the same token, however, the new group could and should make a major effort to improve the political climate for reform (which to some extent would follow directly from its own creation), and to push for pragmatic progress in the right direction whenever the opportunity arises.

A first step would be for the new group to take an active role in supporting the proposals to strengthen the GATT, on the table for negotiation during the Uruguay Round. Admittedly, this would be something of a challenge to the new group because, for both historical and substantive reasons, the developing countries have had an ambivalent and, at times, hostile attitude to the GATT. To an important extent, this is because of a feeling that the GATT has been too much influenced by the particular interests of the major industrial powers.

The new group would, however, be well placed to insist that if the GATT is to be significantly strengthened as an institution, as it should, it should also adopt new decision-making procedures, based on constituencies and weighted voting, designed to insulate it from undue pressure from the major powers or large trading blocks such as the European Community.[31] In this context, it is interesting and encouraging that an informal mixed North-South (and East-West) group of middle-ranked powers — the Cairns Group — is already playing an active and constructive role in the Uruguay Round.[32]

[31] More specifically, it would seem desirable to incorporate, in any formula for voting power in the GATT, both a country's share in world trade and the share of trade in its GNP. With appropriately chosen weights, this should help to ensure that the interests of small countries, heavily dependent on foreign trade, are properly represented.

[32] Composed of Argentina, Australia, Brazil, Canada, Chile, Fiji, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand and Uruguay.

A second priority for the new group should be to push for more communication between the relevant organizations and better coordination of their activities. This is not a new idea. Indeed, ministerial communiques from the various organizations routinely announce that, "steps will be taken to strengthen cooperation with organization X, Y, or Z".[33]

In the eyes of most competent observers, the results have so far been disappointing. This is, perhaps, hardly surprising. Each organization has its own clientele; its own institutional "history"; its own natural constituency in national capitals, often fighting for turf at home with the natural constituency of other organizations; and its own bureaucracy viscerally inclined to defend its institutional interests.

It is therefore unlikely that much progress can be made unless it is imposed from above, by some body which reflects the full range of national interests covered by the organizations concerned, and which can, when necessary, mobilize political support at the highest level.

As a first step, the new group could try to set a good example itself. It has already been suggested that its Executive Committee, composed of "personal representatives of heads of state" with ministerial rank, should be charged with coordinating the work and the positions taken by its sub-groups dealing with finance, trade, development, etc. Going one step further, this Executive Committee, or some emanation of it, could invite the heads of the relevant organizations to participate in regular sessions devoted to questions concerning the coordination of their activities, and issues arising at the interface of their respective responsibilities.

At a relatively early stage, however, once this process had been properly established, it might be a good idea for the new group to suggest to the G7 that they should jointly establish an "oversight" or "coordinating" body to take over these functions. As a tactical move, this would have the advantage of giving concrete evidence of the new group's desire to build bridges to the G7, as well as an opportunity to push for "fair representation" in the composition of any such new body.

The most important task of this high-level coordinating

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[33]Thus, in the GATT Ministerial Declaration launching the Uruguay Round it was agreed that the negotiations should aim "to increase the contribution of the GATT to achieving greater coherence in global economic policymaking through strengthening its relationship with other international organizations responsible for monetary and financial matters". GATT Press Release, September 25, 1986, Geneva.

group would be two-fold: to try to eliminate unnecessary duplication of effort where it is reasonably clear which organization should have the primary responsibility; and to develop appropriate institutional procedures for dealing with the increasing number of issues in which several organizations have a legitimate interest.

To give some concrete examples. It has been proposed that the GATT should develop the expertise necessary to examine and review the *economic* aspects — opposed to just the legal aspects — of its member's trade-related policies. What does this imply for the work of the IMF and the World Bank which, *faute de mieux,* have been building up similar expertise as the need for "structural adjustment" has come to play an increasingly important role in their lending policies?

Equally, if the GATT is to take on this role, will it not inevitably find that almost all of a country's microeconomic policies — agricultural, industrial, regional, social, etc. — are in some sense "trade related," and need to be assessed in terms of their cost-effectiveness in achieving the country's general economic and social objectives, not just in fostering international trade? And if so, how could one ensure that the GATT made maximum use of the considerable expertise which the OECD has developed in precisely this area, despite its very different membership?

Left to themselves, it is, on the basis of past experience, extremely unlikely that the institutions concerned would even get to first base in resolving such questions.[34] With strong pressure from above, however, it seems possible that quite a lot could be achieved, within the present institutional framework, in a pragmatic and *ad hoc* way, through bridging mechanisms and transfer of resources. It would not be easy, but it would certainly be worth trying.

In addition to this central task the mandate of the new coordinating group might also include:

1. Developing procedures whereby if, as is sometimes the case, a country receives conflicting advice from different organizations, (or, more seriously, conflicting conditions in the terms of its access to financial assistance) the issues involved can be brought out into the open and hopefully resolved in

[34]This judgement is based in part on the author's personal experience dealing with such institutional questions as Economic Adviser to the Secretary-General of the OECD from 1975 to 1983.

the coordinating body.

2. Examination of proposals to promote coordination through, for example, joint meetings of the governing boards of different organizations, the use of joint secretariat working parties, regular interchange of staff between the organizations, etc.
3. Regular examination of the budgets of the international organizations, on a comparative basis, with a view to maximising benefit/cost ratios, and equalizing rates of return.

Looking somewhat further into the future, the issue of genuine institutional reform should not be put off indefinitely. Before it came onto the agenda, however, the new group would, hopefully, have established its effectiveness and legitimacy. And if so, it would be in a good position to insist that a major reform exercise should address, not only the need to rationalize the existing institutional structure, but also the more fundamental issue of developing some constitutional linkage between the G5/G7 process and the governance of a set of reformed institutions. Ideally, indeed, it would be best if the reform exercise were carried out under the auspices of the "World Economic Council" discussed in the next section.

A World Economic Council?

The ultimate aim of the new group would be the establishment of a World Economic Council, based on the constituency system, which would take on the economic responsibilities assumed by the present Summit. It would thus provide a representative forum for the discussion of key economic issues affecting the world economy at the highest political level. It would also provide a vehicle through which further institutional reform could be negotiated, and through which oversight could be exercised over a set of reformed global institutions run by constituency-based governing boards.

It follows from the whole thrust of this paper that the mandate of such a World Economic Council should incorporate the basic principles of a multilateral, market-oriented, world economic system enshrined in the charters of the GATT, the IMF and the World Bank.

While no doubt premature, it is tempting to speculate about what the composition of such a council might look like. If it did not include the USSR, the possible regional composition, based on formula A voting power, for a council with between seven and ten members, is shown in Table 7. Interestingly enough, seven turns out to be a good number, with two members each from Europe, the Western Hemisphere, and

TABLE 7.

COMPOSITION OF A WORLD ECONOMIC COUNCIL: REGIONAL GROUPINGS
Excluding the USSR[1]

Region	Voting Rights (formula A)	Number of Countries	Number of Seats on the Governing Board			
			7	8	9	10
Europe	33.2	24	2 (2.32)	3 (2.66)	3 (2.99)	3 (3.32)
Western Hemisphere	28.8	34	2 (2.02)	2 (2.30)	3 (2.59)	3 (2.88)
Asia & Oceania	27.3	29	2 (1.91)	2 (2.18)	2 (2.46)	3 (2.73)
Africa & the Middle East	10.6	64	1 (0.74)	1 (0.85)	1 (0.95)	1 (1.06)
Total	100.0	151	7	8	9	10

Figures in parentheses are the unrounded number of seats.

1. Includes only present members of the IMF. Europe includes Turkey, Africa includes Egypt. Voting power from Table 5, first column (page 63).

Asia and Oceania, and one from Africa and the Middle East. In this format — and if so wished — four of the present G7 countries could be members, the United States, Japan, and two G7 countries from Europe, with the addition of three members representing Latin America, Asia and Oceania, and Africa and the Middle East. Alternatively, the United States by virtue of its voting power, might be given a "single member" seat, with the other members selected by the six remaining regional constituencies.

Such a seven member Council looks as though it could be both representative and efficient. Difficulties could arise, however, especially in Europe, where there would be little difference between the voting power of France and the United Kingdom, but there would not be room for both. An alternative would be to have ten members, which would help to solve this problem, and could also open up the possibility of a Western Hemisphere constituency headed by Canada. In other words, with ten members, six constituencies might be headed by G7 countries.

If and when the USSR were invited to join, the "good" numbers for the size of the Council turn out to be eight or ten (Table 8). This statistical fluke is convenient, since it means that

TABLE 8.

COMPOSITION OF A WORLD ECONOMIC COUNCIL: REGIONAL GROUPINGS
Including the USSR[1]

Region	Voting Rights (formula A)	Number of Countries	Number of Seats on the Governing Board			
			8	9	10	11
Western Europe	27.3	21	2 (2.18)	2 (2.46)	3 (2.73)	3 (3.00)
Asia & Oceania	25.6	32	2 (2.05)	2 (2.30)	3 (2.56)	3 (2.82)
Western Hemisphere	25.2	35	2 (2.02)	2 (2.27)	3 (2.52)	3 (2.77)
USSR & Eastern Europe	12.4	8	1 (0.99)	1 (1.12)	1 (1.24)	1 (1.36)
Africa & Middle East	9.5	65	1 (0.76)	1 (0.86)	1 (0.95)	1 (1.05)
Total	100.0	161	8	(8)	(11)	11

Figures in parentheses are the unrounded number of seats.

1. Includes all countries in Annex Table G. Europe includes Turkey, Africa includes Egypt. Voting power from Table 5, fourth column (page 63).

2. In these two cases the sum of the rounded figures, using conventional rounding techniques, add up to more than the number of seats on the Board.

representative membership could be achieved by simply adding one seat for the USSR and Eastern Europe to either a seven or ten member council (although in the latter case the USSR and its allies would be somewhat under-represented in terms of voting power). In an eight member Council, the OECD countries would have four seats (with 54 per cent of the voting power), the developing countries three, and the USSR and Eastern Europe one.

This is no doubt a pipe dream. But if things were to go well in the world over the next decade or so, perhaps it would become both possible and sensible.

ANNEX ON VOTING POWER

This Annex gives a short history of voting power in the IMF, and discusses various other issues connected with the use of economic indicators in determining voting power, in particular the use of purchasing power parities.

Voting Power in the IMF[35]

The history of the determination and evolution of voting power in the IMF is both fascinating and somewhat tortuous. The original Bretton Woods formula, devised by Raymond Mikesell, was as follows:

90 per cent of the total of:
2 per cent of national income, 1940
plus 5 per cent of gold and dollar balances on July, 1943,
plus 10 per cent of maximum variation of exports, 1934–38,
plus 10 per cent of average imports, 1934–38,
increased for each country in the same ratio as average exports, 1934–38, bore to national income.

Quotas calculated using this formula just before the Bretton Woods conference, and those agreed at the conference and included in Schedule A of the original Articles of Agreement, are shown in Table A. As can be seen, the main result of the "political" negotiation at Bretton Woods was to increase the quotas of the USSR and China at the expense of France, and to a lesser extent the United States. Australia also struck a good deal, while South Africa lost out.

Two early episodes illustrate the role played by both the formula and the "political" element. As early as 1946, France tried to get back what it had lost in the political negotiation, claiming a large quota increase based on the original formula calculation. A substantial increase was agreed, but was scaled back to leave France just behind China so as to maintain the ranking agreed at Bretton

[35]This section is based on the three published histories of the IMF, covering the periods 1945–65, 1966–71, and 1972–78 (referred to as IMF1, IMF2 and IMF3) and "The Determination of Quotas and the Relative Position of the Developing Countries in the IMF", a paper by the UNCTAD Secretariat dated July 1982, published in S. Dell/Editor, *The International Monetary System and Its Reform,* North Holland, 1987, Part II pp. 511–40 (referred to as UNCTAD).

Woods. In the same year, Australia, which participated at Bretton Woods, but did not join until later, applied for membership. Egypt and Iran objected that while Australia's quota was significantly above its calculated quota, theirs were significantly below. To keep the peace, while Australia got its agreed quota, Egypt's and Iran's were increased in line with their calculated quota.

There was no general increase in Fund quotas during the first fourteen years of its existence. Total Fund quotas increased by one fifth during this period, however, primarily because of the accession of 27 new members, notably including Italy, Germany and Japan.[36] Quotas for these new members were calculated using the original Bretton Woods formula, and were then subject to "political" negotiation. Despite the latter, however, statistical analysis by the UNCTAD Secretariat suggests that the Bretton Woods formula played a predominant role in determining the quotas of new members during this early period.[37] At the same time, the consequences of the political element in the quotas agreed at Bretton Woods was significantly attenuated, since the USSR did not join the Fund, France's quota was increased, and China's quota was frozen after it was transferred to Taiwan in 1949.

On the other hand, another feature of this period was the introduction, in 1956, of the "small quota" policy, which had the effect of raising the quotas of small mainly developing countries very substantially above those given by the Bretton Woods formula.[38]

The first general quota increase came in 1959. Ninety per cent of it took the form of a 50 per cent increase in all quotas, with no impact on voting power (Table B). The remaining 10 per cent took the form of "selective" increases in the quotas of Germany, Japan and Canada. These selective increases were determined with little reference to the formula, the emphasis being on the growth of trade from the pre-1939 levels still used in the formula.[39]

Additional formulae

By the early 1960s some of the oddities of the original Bretton Woods formula could no longer be ignored. Rather than develop a new formula, however, the Fund staff developed a whole battery of

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[36] In itself, this reduced the combined voting power of the United States and the United Kingdom from 53 to 44 per cent.

[37] UNCTAD, pp. 53335.

[38] Quotas under $5 million could be raised, on request, to $7.5 million, those of $58 million to $10 million, those of $10 million to $15 million, and those of 15 million to $20 million (IMF1, Vol. III, p. 391).

[39] IMF3, Vol. I, p. 515.

additional formulae, which were then averaged and/or compared with variants of the Bretton Woods formula to yield a single "calculated" quota.[40] In essence, this technique has continued in use to the present day, although the number of formulae has been reduced from 16 using two different data sets, to 5 using one data set.

In the present context, there are three main problems with the original Bretton Woods formula.

The first is a mathematical oddity. It is not clear whether Professor Mikesell had any ulterior motive; he may simply have felt it was quite sensible to increase each country's quota, as determined by the weighted average of the key variables, by the share of its exports in GNP. But the result was to introduce both GNP and its reciprocal into the formula, which means that, over a certain range, depending on the weights used, the calculated quota *declines* as GNP increases; and this is still a feature of three of the five formulae used today (Table C). The practical importance of this oddity may be limited, but it has had the unfortunate consequence that because of this "multiplicative" term it is difficult to understand the implications of any proposed change to the weighting system without extensive and until the advent of personal computers time consuming calculations.

A second feature of the formula is that it was designed to be used to determine both the overall size of Fund quotas and the distribution of quotas among members. In the event, however, it was never used for the first purpose. Decisions on the overall size of Fund quotas have been taken on the basis of a mixture of economic and political considerations (in which the United States has played a preponderant role), which have led to a quota total only a fraction of what would have resulted had the formula been applied.

As a result, the Fund staff have regularly had to "reduce" the Bretton Woods formula to produce a total consistent with reality. There is still the legacy, however, that in all the formula used, each variable enters as an absolute figure, rather than as a ratio to the Fund total for that variable (which is the method used in formulae A and B). Again, in principle this may seem sensible; it means, for example, that if trade is increasing faster than GNP, the weight given to trade in determining quotas and voting power will automatically increase. But it also still further reduces the "transparency" of the formula, and thus consideration of more fundamental issues concerning the choice of variables and the weighting system.

The third and most important feature of the Bretton Woods formula was the heavy weight it gave to GNP converted at current exchange rates, still equal to nearly 50 per cent in the "reduced and

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[40] "The result for the Bretton Woods (B.W.) formula, revised and reduced, is compared with the average of the lowest two of four formulas which are relatively favourable to developing countries and the greater of these two calculated quotas is chosen" (!) (UNCTAD p. 520–21).

revised" version being used in the early 1980s (Table C, panel II). As discussed in the main text, this is the variable which, by far, most benefits rich countries (Table 1). Indeed, it was no doubt given such a heavy weight by Mikesell precisely because he was under instructions to produce a formula which would justify large initial quotas for the United States and the United Kingdom.

It is thus hardly surprising that the main feature of the alternative formulae developed by the Fund staff is the — somewhat desperate — efforts made to reduce this bias by:

- reducing the weight given to GNP (to as low as 16.6 per cent in one formula!)
- dropping reserves, another variable whose inclusion tends to favor many industrial countries, and
- increasing the weight given to the variability of export earnings, which tends to be greater for developing countries (from 9.6 per cent in the BW formula, to as much as 41.4 per cent in one of the alternatives!).

Over the following 25 years this remarkable cocktail of (very different) formulae, and the "calculated quotas" derived from it, have played an increasing — and an increasingly controversial — role in the determination of the quotas for new members, and the distribution of selective quota increases. Indeed, the statistical analysis referred to earlier led the UNCTAD Secretariat to conclude that the distribution of quotas among members who joined the Fund after 1950, "is best explained by a formula which assigns a relatively low weight to national income, a relatively large weight to imports and a very much larger weight to variability of exports."[41]

In both the Fourth (1960) and Fifth (1965) general reviews, roughly 75 per cent of the total increase came from a 25 per cent increase in all quotas, with the remainder from selective increases. The latter primarily benefited the other industrial countries at the expense of the United States and, especially, the United Kingdom.[42] Economic indicators and calculated quotas played a role, but so also did "political" considerations.[43] There was little change in the quota share of the developing countries, which had, however, been rising because of the accession of new members and the application of the "small quota" policy (subsequently scaled down in 1966–67).[44]

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[41] UNCTAD, p. 534.

[42] In the Fifth Review the United Kingdom accepted an increase of only 14.8 per cent, well below the "general" increase of 25 per cent.

[43] IMF2, Vol. I, p. 583.

[44] In addition, during the early 1960s, the quotas of 30 developing countries, with strongly fluctuating export earnings, were increased in connection with the introduction of the Compensatory Financing Facility (IMF1, Vol. II, pp. 360–363).

One not insignificant factor which influenced the evolution of voting power was the conflict that could arise between a country's views about the appropriate size of the overall increase in quotas, as against the relative size of its own quota. Thus, for example, in the Fourth review France refused to take an obviously appropriate selective increase because it had argued for a smaller general increase. On the whole, this conflict has been most marked for Germany, which has usually taken a conservative line on increasing the size of the Fund, making it difficult to press its legitimate case for an increase in the relative size of its own quota.[45] This is no doubt one of the reasons why Germany's quota still seems small in relation to its economic strength (Table 3).

The Sixth General Review

The Sixth general review was by far the most interesting. The negotiations started in April 1974, in the immediate aftermath of the first oil crisis, and took nearly two years to complete. The developing countries were aggressively pushing their ideas for a New International Economic Order; the industrial countries were on the defensive, and looking for cheap concessions they could make.

It was agreed from the outset that the combined quotas of the OPEC countries should be roughly doubled, which given the vast increase in their exports and reserves, could easily be justified in terms of the "calculated" quotas. But despite all the Fund staff's ingenious efforts to fiddle the calculations in favor of the developing countries, the "calculated" quotas showed that the counterpart should be a reduction in the quota share of the other developing countries. As a political concession, however, the industrial countries agreed that there should be no reduction in the share of the non-oil developing countries — and then inevitably found themselves embroiled in acrimonious negotiations as to how the reduction in their collective share should be distributed among them.

The final outcome produced by far the most selective general review ever negotiated, with increases ranging from as little as 4.5 per cent for the United Kingdom to as much as 771 per cent for Libya. The key result was a shift of about 4 percentage points in voting power from the industrial countries to the developing countries (Table D). Significantly, this was not the result of using objective economic indicators, but rather of a highly political negotiation.

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[45]The increase in Germany's quota in the Fifth review was only 33 per cent, compared to 65, 60, and 52 per cent, respectively, for Japan, Italy and France. Despite this, at the outset of the Sixth review, the German Executive Director, whose instructions were to oppose any general quota increase, took the position that "officials of the Federal Republic of Germany were at ease about their relative quota" (IMF3, Vol. I, p. 520).

Part of the compromise reached at the Sixth review was to advance the Seventh review by two years to 1978. From the distributional point of view, however, this review turned out to be a tame affair, since 98 per cent of the increase in total quotas took the form of a general 50 per cent in all quotas. Shortly thereafter, however, two decisions by the Executive Board had an important impact on voting power: soon after mainland China rejoined the Fund, its quota was raised from SDR 550 million to SDR 1.8 billion in September 1980, and in March 1981, in the aftermath of the second oil crisis, Saudi Arabia's quota was doubled to SDR 2.1 billion. Together, this raised the developing countries' share by nearly another 3 percentage points.

In the Eighth (and most recent) general review, 60 per cent of the overall increase was distributed in proportion to each country's share in total "calculated" quotas.[46] Despite all the Fund staff's ingenious efforts, this inevitably led to some shift in voting power back to the industrial countries, since by then the actual share of the developing countries in Fund quotas was higher than their share in any of the variables entering into the formulae.

Several lessons emerge from this brief history:

1. Despite statements to the contrary, the use of (changing) formulae based on economic indicators has played a key role in the determination and evolution of the quota structure of the Fund.
2. Major difficulties have arisen, however, because, without bringing in additional variables, there is no formula which could produce the distribution of quotas (and voting power) between the developed and developing countries which has in practice proved acceptable and desirable on more general economic and political grounds.
3. Despite valiant efforts, the evolution of voting power has lagged behind changing economic realities because over half of the twelve-fold increase in quotas since 1945 has taken the form of "general" increases, equiproportional to existing quotas at the time (Table B, bottom panel). In part, moreover, this has been because of dissatisfaction with the distributional consequences of using "calculated" quotas as the basis for selective increases.
4. These difficulties have perhaps been compounded by the lack of transparency of the original formula, increased many fold by the Fund staff's convoluted efforts to maintain the pretence of its continued sanctity.

Looking to the future, it would seem high time to demystify this subject, and to negotiate a new formula for calculating IMF quota shares, using additional variables, which could then be used to

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[46] *Annual Report 1983,* IMF, p. 86.

correct anomalies in the existing quota structure, and to negotiate future changes in this structure. The "formula A" described in the main text was developed for a different purpose, but the results suggest that it should not be too difficult to develop some variant for use in the Fund.

Purchasing Power Parity

The first pioneering study of purchasing power parity was by Milton Gilbert and Irving B. Kravis, *An International Comparison of National Products and the Purchasing Power of Currencies,* OEEC, Paris, 1954. The results of the latest phase of the ICP project were published in *World Comparisons of Purchasing Power and Real Product for 60 countries,* United Nations, 1987. The ICP project is being carried out under the auspices of the United Nations with the collaboration of the UN Commissions for Europe, for Latin America, for Asia and the Pacific, the European Community, the Organization for Economic Cooperation and Development, and the World Bank.

The systematic tendency for estimates of real output, measured at foreign exchange rates, to understate the real output of poorer countries is illustrated in Table E. For countries with a 1985 per capita income of under $1,000, for example, the average per capita output, measured using purchasing power parities, was two-and-half times higher than when measured using foreign exchange rates, with a steadily narrowing gap at higher levels of per capita income.

Although the subject is complex, the basic reason for this is relatively straightforward. The role of foreign exchange rates is essentially to balance a country's external transactions. They thus tend to settle, over time, at levels that equate the average level of domestic prices for *tradeable* goods with the average level of world trade prices for such goods. But, particularly in poorer countries, the production of tradeable goods tends to be more capital intensive and less labour intensive than domestic production as a whole, which includes a large amount labour intensive non-tradeable goods and services produced for the domestic market. Thus the price of tradeable goods will be higher, relative to the general price level, in poor countries than it is in rich countries. It follows that the value of total domestic production, measured in a common international unit, will be lower if it is converted using the foreign exchange rate, reflecting the price of tradeable goods, than if it is converted using a measure of the general price level in each country.

The validity of this general observation is apparent from a simple observation. Visitors from rich countries find that, converting their money at the going exchange rate, life seems remarkably cheap in poorer countries. This will generally be true even if they insist on buying the same "basket" of goods that they are accustomed to buy in their own country. It will be even more true if they shift their pattern of expenditure to take advantage of the low price of labour-intensive goods and services, and cut back on their purchases of tradeable goods.

The only way to get around this problem is to collect detailed information in each country about the prices of goods and services covering the whole range of national output, and then weight them together to provide indices of "purchasing power parity", i.e., a conversion factor showing how much of each national currency would be required to buy a similar basket of goods in each country.

The estimates used here for purchasing power parity GDP are taken from Alan Heston and Robert Summers, "A New Set of International Comparisons of Real Product and Prices: Estimates for 130 Countries, 1950–1985" published in *Income and Wealth* in March 1988. For 70 countries they are based on extensive data on prices collected in one or more "benchmark" years. For the remaining 60 countries "short cut" methods have been used, based in part on analysis of the systematic differences between GDP-EXR and GDP-PPP found in the figures for countries for which benchmark data are available, and in part on scattered information on prices from other sources.

These 130 countries account for something like 99 per cent of world GNP. For the remaining countries, for the purposes of this study, GDP-EXR has been multiplied by the average ratio of GDP-PPP to GDP-EXR for countries in the same region with similar economic characteristics for which data are available.

It is clear, from the above, that the quality of these PPP estimates varies greatly among countries. This is especially true for the centrally planned economies with their distorted price systems. Thus, for example, the Heston-Summers estimate for real per capita income in China is regarded by most competent observers as too high, and has not been used in this study.[47]

Over the time the quality and coverage of the data should improve. In the next phase of the ICP project, for example, benchmark data should become available for an additional ten or more countries. Nevertheless, it is clear that the uneven quality of the PPP estimates could create serious problems for the use of GDP-PPP in a voting formula. One possibility would be not to give full "credit" to a country for the excess of its GDP-PPP over its GDP-EXR in calculating voting power unless and until it had produced the data necessary to construct reasonable estimates.

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[47] Instead, GDP-EXR was multiplied by the average ratio of GDP-PPP to GDP-EXR for India, Indonesia, Pakistan, Thailand and Sri Lanka.

Basic Votes

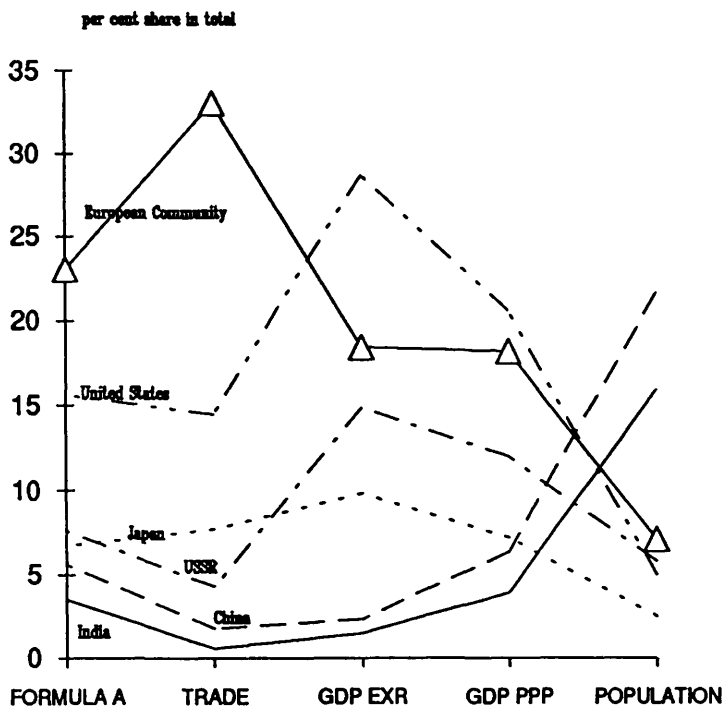
The effects of doubling the weight given to basic votes is shown in Table F. As might be expected, the voting power of the developing countries is increased, because they are more numerous, the main beneficiary being Africa. On balance, however, this would not be a good idea, because it would give too much voting power to extremely small countries. An alternative would be to devise a mathematical formulation which modestly but progressively increased the relative voting power of countries at the bottom end of the frequency distribution by size of country.

Different Geographical Groupings

It can be seen in Table 6 that the ranking of countries by voting power can change from one country grouping to another, notably in the case of India and Italy. This is because Italy, for example, has a larger share of the total trade and GNP in a country grouping which excludes the G-5 countries, and these two variables have a much higher weight than population, in which India has the advantage, in the voting formula.

The ranking of countries by major economic indicators in illustrated in Graph 3.

GRAPH 3. ALL COUNTRIES: VOTING POWER AND ECONOMIC INDICATORS 1985



ANNEX TABLE A.

BRETTON WOODS QUOTAS, JULY 1944: CALCULATED AND AGREED

Country	Quota: million dollars		Quota: percent share	
	Calculated	Agreed	Calculated	Agreed
United States	2929	2750	34.83	31.47
United Kingdom	1275	1300	15.16	14.88
U.S.S.R.	763	1200	9.07	13.73
France	620	450	7.37	5.15
India & Burma	367	400	4.36	4.58
China	350	550	4.16	6.29
Netherlands	325	275	3.86	3.15
Canada	278	300	3.31	3.43
Belgium	250	225	2.97	2.57
South Africa	175	100	2.08	1.14
Australia	149	200	1.77	2.29
Czechoslovakia	117	125	1.39	1.43
Poland	114	125	1.36	1.43
Brazil	107	150	1.27	1.72
Yugoslavia	85	60	1.01	0.69
Norway	66	50	0.78	0.57
Mexico	63	90	0.75	1.03
Egypt	59	45	0.70	0.51
New Zealand	54	50	0.64	0.57
Greece	41	40	0.49	0.46
Chile	37	50	0.44	0.57
Cuba	37	50	0.44	0.57
Columbia	30	50	0.36	0.57
Venezuela	25	15	0.30	0.17
Uruguay	22	15	0.26	0.17
Peru	21	25	0.25	0.29
Bolivia	9	10	0.11	0.11
Guatemala	7	5	0.08	0.06
Luxembourg	7	10	0.08	0.11
Haiti	5	5	0.06	0.06
Ecuador	5	5	0.06	0.06
El Salvador	5	2.5	0.06	0.03
Iceland	4	1	0.05	0.01
Honduras	3	2.5	0.04	0.03
Costa Rica	3	5	0.04	0.06
Paraguay	2	2	0.02	0.02
Total	8409	8738	100	100

Source:
The International Monetary Fund: 1945–1965, Vol. I, Table 2.

1. Excluding nine countries for which quotas had not been calculated before the negotiations began (Denmark, Dominican Republic, Ethiopia, Iran, Iraq, Liberia, Nicaragua, Panama, and the Philippines).

ANNEX TABLE B.

IMF QUOTA REVIEWS: GENERAL VERSUS SELECTIVE INCREASES, 1945–1983.

	Total quotas billion[1]		Percent increase		Selective as percent of total
			General	General + Selective	
Initial quotas 1945	7.6	—	—	—	—
Review	Before	After			
1st 1950	8.0	—	—	—	—
2nd 1955	8.8	—	—	—	—
3rd 1959	9.2	14.3	50	55.6	10
4th 1965	16.0	21.2	25	32.5	23
5th 1970	21.3	28.7	25	34.5	29
6th 1975	29.0	39.0	4.5[2]	32.5	87
7th 1978	39.0	58.6	50	50.0	2
8 th 1983	61.0	90.0	19	47.5	60

Total increase over period	Billion	Percent of total
from general	46.3	56
From selective	30.0	36
Other[3]	6.1	7
Total	82.4	100

1. Dollars through 1970, SDRs thereafter.
2. The smallest increase (for the United Kingdom)
3. From the accession of new members and increases granted between general reviews.

Source:
Author's calculations based on data from IMF Histories, op. cit.

ANNEX TABLE C

IMF QUOTA FORMULAE: CIRCA 1982

I. **Five Formulae**

Bretton Woods, revised and reduced:

BW $(1+X/Y)\,(.01Y+.025R+.05M+.2276V)$

Other formulae:

III $(1+X/Y)\,(.0065Y+.078M+.5065V)$

IV $(1+X/Y)\,(.0045Y+.07M+9622V)$

M4 $.005Y+.044(M+X)+1.044V$

M7 $.0045Y+.039(M+X)+1.30V$

Where Y is GNP, R is total reserves, M and X are imports and exports (five year average), and V is a measure of the variability of exports earnings. Each formula was applied to two different data sets using customs data for merchandise trade and balance of payments data for current payments and receipts and the results average (in the Eighth General Review, in 1983, only the second data set was used).

II. **Effective Weighting**

The effective weights for the different variables using 1975–79 figures (customs data), and ignoring the multiplicative term, were:

Formula	**Y**	**R**	**M**	**X**	**V**
BW	48.8	5.7	35.9	—	9.6
III	29.1	—	51.4	—	19.5
IV	19.5	—	44.6	—	35.9
M4	18.7	—	24.2	23.7	33.5
M7	16.6	—	21.2	20.8	41.4

Source: UNCTAD, pp. 528 and 531.

ANNEX TABLE D.

EVOLUTION OF IMF QUOTA STRUCTURE: 1945–1988

	1945 Dec 31	1966 Apr 30	1971 Dec 31	1978 Dec 31	1981 Oct 31	1983 Dec 31	1988
After Review	original	4th	5th	6th	7th	8th	Mar 31
Industrial countries	70	64	63	59	57	58	58
of which:							
United States	36	27	23	21	21	20	20
United Kingdom	17	12	10	8	7	7	7
Others	17	25	30	30	29	31	31
More developed primary producing countries	9	9	9	9	9	9	8
Developing countries	21	27	28	32	35	33	34
of which:							
Major oil exporters	1	4	5	10	11	10	11
Total	100	100	100	100	100	100	100

Note:
The category "More developed primary producing countries" includes Australia, Finland, Iceland, Ireland, New Zealand and Spain, classified today as industrial countries; and Greece, Malta, Portugal, Romania, South Africa, Turkey and Yugoslavia, classified today as developing countries. The shares shown do not include base votes. Totals do not add due to rounding.

Source:
Margaret de Vries, The International Monetary Fund: 1972–1978, Table 17, p. 537, updated by the author.

ANNEX TABLE E.

EXCHANGE RATE GDP VERSUS PURCHASING POWER PARITY GDP

Countries (1) with per capita purchasing power parity GDP of:	Average ratio of GDP PPP to GDP EXR
Under $ 1000	2.54
$ 1000–$ 5000	2.40
$ 5000–$ 10000	2.13
$ 10000–$ 15000	1.18
United States	0.96

1. Countries for which Heston-Summers estimates are based on benchmark data.

ANNEX TABLE F.

EFFECT OF CHANGING THE WEIGHT GIVEN TO BASE VOTES: FORMULA A

Country grouping[1]	Weight as in IMF (4.03 percent)	Basic Votes Doubled
Developed	59.3	57.3
Developing	40.7	42.7
Europe	33.3	32.6
Western Hemisphere	28.8	28.5
Asia & Oceania	27.3	26.9
Africa	5.7	6.9
Middle East	4.9	5.1

1. IMF member countries. Europe includes Turkey, Africa includes Egypt

ANNEX TABLE G.

ALL COUNTRIES: VOTING POWER AND ECONOMIC INDICATORS, 1985 (percent share in total; see notes page 101)

	Formula A	Trade	GDP-EXR	GDP-PPP	Population	PPP Per Capita GDP	Source
United States	15.64	14.48	28.70	20.57	4.98	16057	B
Soviet Union	7.62	4.29	14.86	12.01	5.81	8029	S
Japan	6.72	7.72	9.81	7.23	2.51	11176	B
Germany	5.66	8.57	4.80	4.19	1.27	12831	B
China, People's Rep.	5.62	1.78	2.32	6.38	21.63		A
France	4.00	5.26	3.78	3.69	1.15	12492	B
United Kingdom	3.83	5.27	3.44	3.29	1.17	10874	B
India	3.49	0.58	1.48	3.91	15.91	955	B
Italy	3.16	4.18	2.68	2.82	1.19	9230	B
Canada	2.80	4.33	2.49	1.98	0.53	14544	B
Netherlands	1.87	3.35	0.97	0.86	0.30	11067	B
Brazil	1.78	0.54	1.60	2.89	2.82	3979	B
Belgium	1.53	2.82	0.59	0.61	0.21	11580	B
Mexico	1.44	0.91	1.18	2.00	1.64	4739	B
Spain	1.39	1.36	1.19	1.63	0.80	7879	B
Indonesia	1.24	0.73	0.62	1.35	3.37	1550	B
Korea	1.13	1.55	0.63	0.82	0.85	3734	B
Saudi Arabia	1.00	1.73	0.73	0.48	0.24	7838	S
Australia	0.98	1.23	1.23	0.92	0.33	10953	B
Iran, I.R. of	0.95	0.78	1.19	1.17	0.93	4897	B
Sweden	0.91	1.48	0.71	0.54	0.17	12118	B
Poland	0.88	0.56	0.55	1.25	0.77	6295	B
Switzerland	0.87	1.47	0.74	0.46	0.13	13411	S
Germany Dem. Rep.	0.83	1.21	1.25	0.59	0.35	6545	S
Hong Kong	0.83	1.51	0.26	0.33	0.11	11297	B
Taiwan	0.80	1.25	0.39	0.46	0.40	4422	S
Czechoslovakia	0.78	0.89	0.33	0.79	0.32	9512	S

	Formula A	Trade	GDP-EXR	GDP-PPP	Population	PPP Per Capita GDP	Source
South Africa	0.74	0.70	0.47	0.79	0.67	4583	S
Yugoslavia	0.67	0.58	0.34	0.80	0.48	6487	B
Turkey	0.66	0.40	0.39	0.85	1.04	3163	B
Austria	0.65	0.96	0.50	0.46	0.16	11319	B
Pakistan	0.63	0.22	0.26	0.75	2.00	1450	B
Singapore	0.63	1.23	0.14	0.15	0.05	11183	S
Nigeria	0.61	0.54	0.57	0.36	2.07	681	B
Romania	0.59	0.54	0.43	0.67	0.47	5475	B
Thailand	0.58	0.41	0.30	0.64	1.08	2310	B
Denmark	0.58	0.88	0.41	0.37	0.11	13519	B
Bulgaria	0.57	0.68	0.42	0.54	0.19	11187	S
Norway	0.57	0.89	0.43	0.35	0.09	15563	B
Argentina	0.51	0.31	0.47	0.68	0.63	4164	B
Malaysia	0.50	0.70	0.22	0.34	0.32	4050	B
Philippines	0.46	0.25	0.23	0.50	1.14	1710	B
Bangladesh	0.46	0.09	0.11	0.44	2.09	822	S
Finland	0.45	0.67	0.38	0.30	0.10	11340	B
Venezuela	0.45	0.52	0.38	0.38	0.36	4071	B
Algeria	0.44	0.58	0.40	0.29	0.46	2513	S
Egypt	0.43	0.34	0.21	0.37	1.01	1444	S
Hungary	0.41	0.42	0.15	0.42	0.22	7387	B
Iraq	0.38	0.52	0.30	0.23	0.33	2706	S
Colombia	0.38	0.19	0.27	0.49	0.59	3221	B
Greece	0.34	0.37	0.25	0.30	0.21	5703	B
Ireland	0.31	0.51	0.12	0.12	0.07	6556	B
United Arab Emirates	0.30	0.53	0.19	0.11	0.03	14496	S
Portugal	0.30	0.34	0.14	0.25	0.21	4601	B
Israel	0.29	0.41	0.15	0.19	0.09	8208	B
Cuba	0.29	0.38	0.10	0.18	0.21		A
Libya	0.29	0.40	0.20	0.19	0.08		A
Kuwait	0.28	0.48	0.18	0.11	0.04	12337	S
Viet Nam	0.26	0.06	0.00	0.20	1.28		A
Chile	0.24	0.17	0.12	0.27	0.25	4132	B
New Zealand	0.23	0.29	0.16	0.17	0.07	9761	B
Peru	0.22	0.12	0.14	0.25	0.39	2556	B
Morocco	0.21	0.15	0.09	0.19	0.46	1582	B
Syrian Arab Rep.	0.20	0.14	0.12	0.21	0.22	3741	B
Sri Lanka	0.17	0.08	0.04	0.17	0.33	1995	B
Burma	0.16	0.02	0.05	0.14	0.77	697	S
Ethiopia	0.16	0.03	0.03	0.09	0.88	390	B
Ecuador	0.15	0.11	0.08	0.14	0.20	2858	B
Oman	0.14	0.20	0.06	0.06	0.03	9149	S
Tunisia	0.13	0.11	0.06	0.10	0.15	2596	B
Kenya	0.13	0.06	0.04	0.08	0.42	727	B
Cote d'Ivoire	0.12	0.12	0.05	0.06	0.21	1175	B
Zaire	0.12	0.04	0.02	0.03	0.64	212	S
Sudan	0.12	0.03	0.05	0.08	0.46	696	S
Afghanistan	0.11	0.04	0.00	0.08	0.38	780	S
Tanzania	0.11	0.03	0.05	0.06	0.46	513	B
Guatemala	0.101	0.056	0.072	0.083	0.166	1957	B
Bahrain	0.099	0.151	0.028	0.020	0.009	8877	S
Cameroon	0.097	0.047	0.059	0.072	0.212	1325	B
Jordan	0.095	0.091	0.039	0.055	0.073	2906	S
Dominican Republic	0.093	0.056	0.036	0.073	0.133	2127	B
Trinidad and Tobago	0.093	0.096	0.051	0.057	0.025	9047	S
Nepal	0.090	0.015	0.019	0.059	0.343	667	S
Zimbabwe	0.089	0.054	0.041	0.055	0.174	1216	B

	Formula A	Trade	GDP-EXR	GDP-PPP	Population	PPP Per Capita GDP	Source
Qatar	0.086	0.118	0.037	0.022	0.007		A
Angola	0.085	0.064	0.019	0.034	0.182	726	S
Luxembourg	0.083	0.108	0.038	0.025	0.008	12937	B
Mozambique	0.082	0.018	0.016	0.049	0.287	661	S
Yemen Arab Rep.	0.081	0.038	0.032	0.054	0.166	1261	S
Uganda	0.079	0.009	0.001	0.043	0.322	521	S
Uruguay	0.077	0.039	0.036	0.068	0.063	4219	B
Ghana	0.077	0.034	0.035	0.028	0.264	411	S
Costa Rica	0.073	0.052	0.024	0.047	0.054	3341	B
Brunei Darassalam	0.071	0.090	0.024	0.015	0.005		A
Bolivia	0.070	0.030	0.022	0.046	0.134	1328	B
Bahamas	0.070	0.092	0.012	0.012	0.005		A
Lebanon	0.069	0.064	0.027	0.027	0.056		A
El Salvador	0.069	0.041	0.028	0.037	0.100	1449	B
Madagascar	0.068	0.017	0.018	0.034	0.212	629	B
Panama	0.067	0.044	0.033	0.044	0.045	3779	B
Senegal	0.067	0.032	0.018	0.035	0.137	987	B
Papua New Guinea	0.067	0.048	0.017	0.032	0.073	1722	S
Zambia	0.064	0.035	0.019	0.025	0.139	691	B
Paraguay	0.063	0.024	0.023	0.048	0.077	2432	B
Gabon	0.063	0.067	0.030	0.015	0.024	2484	S
Honduras	0.063	0.042	0.023	0.025	0.091	1059	B
Yemen, P.D. Rep.	0.059	0.055	0.008	0.013	0.044		A
Jamaica	0.058	0.042	0.015	0.025	0.046	2155	B
Nicaragua	0.055	0.011	0.018	0.044	0.068	2506	S
Mali	0.055	0.015	0.008	0.020	0.156	499	B
Cyprus	0.055	0.042	0.018	0.025	0.014	6925	S
Haiti	0.054	0.016	0.013	0.025	0.123	788	S
Congo	0.053	0.042	0.015	0.014	0.040	1390	S
Burkina Faso	0.053	0.007	0.009	0.021	0.164	497	S
Malawi	0.053	0.014	0.009	0.018	0.146	478	B
Guinea	0.052	0.016	0.014	0.019	0.129	561	S
Niger	0.051	0.013	0.012	0.017	0.133	490	S
Iceland	0.051	0.043	0.019	0.015	0.005	11387	S
Kampuchea, Dem.	0.0492	0.0020	0.0010	0.0221	0.1433		A
Rwanda	0.0478	0.0108	0.0121	0.0143	0.1248	445	S
Botswana	0.0471	0.0332	0.0066	0.0130	0.0227	2225	B
Somalia	0.0442	0.0051	0.0109	0.0144	0.1123	499	S
Malta	0.0439	0.0291	0.0085	0.0129	0.0074	6741	S
Mauritius	0.0430	0.0241	0.0078	0.0129	0.0206	2430	S
Benin	0.0428	0.0090	0.0073	0.0140	0.0817	663	S
Burundi	0.0426	0.0076	0.0078	0.0113	0.0981	446	S
Chad	0.0416	0.0069	0.0029	0.0084	0.1044	313	S
Liberia	0.0404	0.0181	0.0074	0.0075	0.0455	638	S
Sierra Leone	0.0402	0.0071	0.0093	0.0109	0.0769	552	S
Togo	0.0401	0.0113	0.0049	0.0099	0.0616	624	S
Barbados	0.0397	0.0242	0.0085	0.0087	0.0053	6413	S
Fiji	0.0394	0.0169	0.0086	0.0133	0.0145	3556	S
Mauritania	0.0379	0.0153	0.0051	0.0066	0.0354	727	S
Lesotho	0.0376	0.0098	0.0052	0.0123	0.0318	1504	S
Central African Rep.	0.0375	0.0089	0.0049	0.0080	0.0541	572	S
Lao P.D. Rep.	0.0374	0.0034	0.0039	0.0087	0.0749		A
Suriname	0.0364	0.0165	0.0073	0.0081	0.0082	3832	S
Swaziland	0.0352	0.0121	0.0036	0.0081	0.0157	1992	S
Guyana	0.0344	0.0114	0.0028	0.0066	0.0164	1567	S
Djibouti	0.0316	0.0085	0.0028	0.0050	0.0075		A
Bhutan	0.0300	0.0018	0.0014	0.0043	0.0250		A
Gambia	0.0292	0.0035	0.0012	0.0029	0.0156	724	S
Belize	0.0289	0.0055	0.0014	0.0027	0.0033		A

	Formula A	Trade	GDP-EXR	GDP-PPP	Population	PPP Per Capita GDP	Source
Guinea-Bissau	0.0282	0.0017	0.0011	0.0015	0.0184		A
Solomon Islands	0.0278	0.0039	0.0010	0.0015	0.0056		A
Antigua and Barbuda	0.0276	0.0043	0.0011	0.0013	0.0016		A
St. Lucia	0.0276	0.0039	0.0012	0.0014	0.0028		A
Comoros	0.0274	0.0021	0.0008	0.0015	0.0094		A
Cape Verde	0.0272	0.0020	0.0010	0.0015	0.0068		A
Vanuatu	0.0272	0.0025	0.0008	0.0018	0.0028		A
Equatorial Guinea	0.0269	0.0020	0.0007	0.0006	0.0078		A
Seychelles	0.0268	0.0032	0.0011	0.0007	0.0014		A
Western Samoa	0.0267	0.0017	0.0008	0.0014	0.0034		A
Dominica	0.0266	0.0021	0.0006	0.0013	0.0016		A
St. Vincent	0.0266	0.0024	0.0007	0.0008	0.0025		A
Grenada	0.0266	0.0023	0.0007	0.0010	0.0020		A
Maldives	0.0266	0.0019	0.0004	0.0008	0.0038		A
Sao Tome & Principe	0.0263	0.0020	0.0002	0.0004	0.0022		A
St. Kitts & Nevis	0.0262	0.0020	0.0005	0.0005	0.0009		A
Tonga	0.0260	0.0011	0.0005	0.0008	0.0020		A
Kiribati, Rep. of	0.0256	0.0005	0.0002	0.0005	0.0013		A

ANNEX TABLE H.

CONTINUATION OF TEXT TABLE 2
(percent share in total; see notes page 101)

	Voting Power			Economic Indicators			
	IMF	Formula A	Formula B	Trade	GDP-EXR	GDP-PPP	Population
South Africa	1.00	0.85	0.69	0.80	0.57	0.94	0.73
Nigeria	0.93	0.69	0.96	0.61	0.70	0.43	2.25
Austria	0.85	0.75	0.71	1.08	0.61	0.54	0.17
Denmark	0.78	0.66	0.63	1.00	0.50	0.44	0.12
Norway	0.77	0.65	0.63	1.01	0.53	0.41	0.09
Poland	0.75	1.02	0.69	0.64	0.67	1.48	0.84
Iran, I.R. of	0.73	1.10	1.12	0.88	1.45	1.38	1.00
Kuwait	0.70	0.32	0.33	0.54	0.22	0.13	0.04
Algeria	0.69	0.51	0.56	0.65	0.49	0.35	0.49
Yugoslavia	0.68	0.77	0.54	0.66	0.42	0.95	0.52
Finland	0.64	0.52	0.52	0.76	0.47	0.35	0.11
Malaysia	0.61	0.58	0.50	0.79	0.27	0.40	0.35
Pakistan	0.61	0.72	0.66	0.25	0.32	0.88	2.17
Hungary	0.59	0.47	0.33	0.48	0.18	0.50	0.24
Romania	0.58	0.68	0.57	0.62	0.53	0.79	0.51
Libya	0.58	0.33	0.31	0.45	0.24	0.23	0.09
Iraq	0.56	0.43	0.46	0.59	0.36	0.27	0.36
Egypt	0.52	0.49	0.49	0.39	0.26	0.44	1.09
Korea	0.52	1.29	1.18	1.76	0.78	0.97	0.93
New Zealand	0.52	0.26	0.25	0.33	0.20	0.20	0.07
Israel	0.50	0.33	0.30	0.47	0.19	0.22	0.10
Chile	0.50	0.27	0.21	0.19	0.15	0.32	0.27
Philippines	0.50	0.52	0.48	0.29	0.28	0.59	1.23
Turkey	0.48	0.76	0.60	0.45	0.48	1.00	1.13
Greece	0.45	0.39	0.35	0.42	0.31	0.36	0.22

	Voting Power			Economic Indicators			
	IMF	Formula A	Formula B	Trade	GDP-EXR	GDP-PPP	Population
Colombia	0.45	0.43	0.36	0.22	0.33	0.58	0.64
Thailand	0.44	0.67	0.57	0.47	0.36	0.76	1.16
Portugal	0.43	0.34	0.29	0.38	0.18	0.30	0.23
Ireland	0.39	0.35	0.32	0.58	0.15	0.15	0.08
Peru	0.38	0.25	0.22	0.13	0.17	0.30	0.42
Morocco	0.35	0.24	0.23	0.17	0.11	0.22	0.49
Zaire	0.34	0.13	0.19	0.05	0.02	0.04	0.69
Bangladesh	0.33	0.52	0.55	0.11	0.13	0.52	2.27
Zambia	0.31	0.07	0.08	0.04	0.02	0.03	0.15
Sri Lanka	0.26	0.19	0.15	0.09	0.05	0.20	0.36
Ghana	0.24	0.08	0.11	0.04	0.04	0.03	0.29
United Arab Emirates	0.24	0.34	0.35	0.60	0.24	0.13	0.03
Zimbabwe	0.23	0.10	0.11	0.06	0.05	0.06	0.19
Viet Nam	0.22	0.29	0.32	0.07	0.00	0.23	1.39
Trinidad and Tobago	0.21	0.11	0.10	0.11	0.06	0.07	0.03
Sudan	0.21	0.13	0.16	0.03	0.06	0.10	0.49
Cote d'Ivoire	0.20	0.14	0.14	0.13	0.06	0.08	0.23
Uruguay	0.20	0.09	0.07	0.04	0.04	0.08	0.07
Ecuador	0.19	0.18	0.15	0.13	0.10	0.17	0.21
Jamaica	0.18	0.06	0.06	0.05	0.02	0.03	0.05
Kenya	0.18	0.14	0.16	0.07	0.05	0.09	0.46
Syrian Arab Rep.	0.18	0.23	0.19	0.16	0.15	0.25	0.24
Tunisia	0.17	0.15	0.13	0.13	0.07	0.12	0.16
Burma	0.17	0.18	0.22	0.02	0.06	0.16	0.83
Qatar	0.15	0.10	0.10	0.13	0.05	0.03	0.01
Dominican Republic	0.15	0.11	0.10	0.06	0.04	0.09	0.14
Guatemala	0.14	0.11	0.12	0.06	0.09	0.10	0.18
Tanzania	0.14	0.12	0.16	0.04	0.06	0.07	0.50
Panama	0.14	0.08	0.07	0.05	0.04	0.05	0.05
Uganda	0.13	0.09	0.10	0.01	0.00	0.05	0.35
Cameroon	0.13	0.11	0.12	0.05	0.07	0.09	0.23
Singapore	0.13	0.71	0.64	1.39	0.17	0.18	0.06
Bolivia	0.12	0.08	0.08	0.03	0.03	0.05	0.14
El Salvador	0.12	0.08	0.08	0.05	0.03	0.04	0.11
Afghanistan	0.12	0.13	0.13	0.05	0.00	0.09	0.41
Senegal	0.12	0.07	0.08	0.04	0.02	0.04	0.15
Costa Rica	0.12	0.08	0.07	0.06	0.03	0.05	0.06
Lebanon	0.11	0.08	0.08	0.07	0.03	0.03	0.06
Yemen, P.D. Rep.	0.11	0.06	0.06	0.06	0.01	0.02	0.05
Luxembourg	0.11	0.09	0.09	0.12	0.05	0.03	0.01
Jordan	0.11	0.11	0.10	0.10	0.05	0.06	0.08
Gabon	0.105	0.070	0.075	0.076	0.037	0.018	0.026
Liberia	0.103	0.044	0.048	0.021	0.009	0.009	0.049
Ethiopia	0.102	0.180	0.240	0.038	0.041	0.104	0.953
Cyprus	0.101	0.061	0.056	0.047	0.022	0.029	0.015
Nicaragua	0.099	0.062	0.054	0.013	0.022	0.052	0.074
Honduras	0.099	0.069	0.075	0.048	0.028	0.029	0.098
Madagascar	0.097	0.075	0.086	0.019	0.022	0.041	0.230
Bahamas	0.097	0.078	0.073	0.104	0.014	0.014	0.005
Papua New Guinea	0.097	0.074	0.071	0.055	0.021	0.038	0.079
Oman	0.094	0.158	0.147	0.226	0.074	0.072	0.028
Mozambique	0.092	0.090	0.102	0.021	0.019	0.058	0.311
Iceland	0.090	0.056	0.055	0.049	0.023	0.017	0.005
Guinea	0.088	0.057	0.067	0.018	0.017	0.022	0.140
Sierra Leone	0.088	0.044	0.050	0.008	0.011	0.013	0.083
Mauritius	0.084	0.047	0.045	0.027	0.010	0.015	0.022
Mali	0.081	0.061	0.069	0.017	0.010	0.024	0.169

	Voting Power			Economic Indicators			
	IMF	Formula A	Formula B	Trade	GDP-EXR	GDP-PPP	Population
Suriname	0.079	0.040	0.039	0.019	0.009	0.010	0.009
Guyana	0.079	0.037	0.036	0.013	0.003	0.008	0.018
Bahrain	0.079	0.111	0.107	0.171	0.035	0.023	0.009
Paraguay	0.078	0.071	0.064	0.027	0.028	0.057	0.083
Malta	0.075	0.048	0.045	0.033	0.010	0.015	0.008
Somalia	0.074	0.048	0.057	0.006	0.013	0.017	0.122
Haiti	0.074	0.060	0.065	0.018	0.016	0.029	0.133
Rwanda	0.073	0.052	0.063	0.012	0.015	0.017	0.135
Yemen Arab Rep.	0.073	0.090	0.093	0.043	0.039	0.064	0.180
Burundi	0.072	0.046	0.054	0.009	0.010	0.013	0.106
Togo	0.068	0.044	0.047	0.013	0.006	0.012	0.067
Congo	0.066	0.059	0.061	0.048	0.019	0.017	0.043
Nepal	0.066	0.100	0.114	0.018	0.023	0.070	0.372
Malawi	0.066	0.058	0.067	0.015	0.010	0.021	0.158
Fiji	0.066	0.043	0.041	0.019	0.010	0.016	0.016
Barbados	0.063	0.044	0.042	0.027	0.010	0.010	0.006
Mauritania	0.063	0.041	0.043	0.017	0.006	0.008	0.038
Niger	0.063	0.056	0.066	0.015	0.014	0.020	0.144
Burkina Faso	0.060	0.058	0.068	0.008	0.010	0.025	0.178
Benin	0.060	0.047	0.051	0.010	0.009	0.016	0.089
Chad	0.059	0.045	0.053	0.008	0.004	0.010	0.113
Central African Rep.	0.059	0.041	0.044	0.010	0.006	0.009	0.059
Lao P.D. Rep.	0.058	0.041	0.046	0.004	0.005	0.010	0.081
Kampuchea, Dem.	0.0533	0.0539	0.0578	0.0023	0.0012	0.0262	0.1552
Swaziland	0.0530	0.0384	0.0369	0.0138	0.0045	0.0095	0.0171
Botswana	0.0502	0.0519	0.0489	0.0377	0.0081	0.0154	0.0246
Equatorial Guinea	0.0463	0.0288	0.0295	0.0023	0.0008	0.0007	0.0084
Gambia	0.0449	0.0315	0.0320	0.0039	0.0015	0.0034	0.0169
Lesotho	0.0428	0.0411	0.0400	0.0112	0.0063	0.0146	0.0345
Belize	0.0368	0.0311	0.0304	0.0062	0.0017	0.0032	0.0036
Vanuatu	0.0363	0.0291	0.0287	0.0029	0.0010	0.0022	0.0030
Djibouti	0.0352	0.0342	0.0333	0.0097	0.0034	0.0059	0.0082
Guinea-Bissau	0.0347	0.0302	0.0318	0.0019	0.0014	0.0018	0.0200
St. Lucia	0.0347	0.0296	0.0295	0.0045	0.0015	0.0016	0.0031
Grenada	0.0331	0.0285	0.0284	0.0026	0.0008	0.0011	0.0022
Western Samoa	0.0331	0.0286	0.0285	0.0019	0.0009	0.0017	0.0037
Solomon Islands	0.0320	0.0299	0.0300	0.0044	0.0012	0.0017	0.0060
Antigua and Barbuda	0.0320	0.0296	0.0294	0.0049	0.0014	0.0016	0.0018
Cape Verde	0.0315	0.0291	0.0294	0.0023	0.0012	0.0017	0.0073
St. Kitts & Nevis	0.0315	0.0280	0.0280	0.0023	0.0006	0.0006	0.0010
Comoros	0.0315	0.0294	0.0299	0.0023	0.0010	0.0018	0.0102
Dominica	0.0309	0.0285	0.0282	0.0024	0.0008	0.0015	0.0018
Sao Tome & Principe	0.0309	0.0281	0.0281	0.0023	0.0003	0.0004	0.0024
St. Vincent	0.0309	0.0285	0.0285	0.0027	0.0009	0.0010	0.0027
Tonga	0.0301	0.0278	0.0278	0.0012	0.0006	0.0009	0.0022
Seychelles	0.0299	0.0288	0.0289	0.0036	0.0013	0.0009	0.0015
Bhutan	0.0293	0.0323	0.0333	0.0020	0.0017	0.0051	0.0270
Kiribati, Rep. of	0.0293	0.0273	0.0273	0.0006	0.0003	0.0006	0.0014
Maldives	0.0288	0.0284	0.0285	0.0022	0.0005	0.0010	0.0041

Notes to Annex Tables G and H

Table G.

Column 1 Basic votes (4.03 percent of total, divided equally between all countries) plus 45 percent of column 2, 45 percent of column 4, and 10 percent of column 5.

Column 2 Total trade in national currencies in 1985 converted to SDRs at 1985 exchage rates.
Source: *IFS,* rows aa, 70, and 71, and GATT *International Trade 86–87,* Table A10.

Column 3 Population multiplied by dollar per capita GNP. Dollar per capita GNP is constructed using the World Bank Atlas method; GNP in national currencies are converted to dollars via an exchange rate converted to dollars via an exchange rate conversion factor which is derived by taking the arithmetic average of the 1985 US$ exchange rate and the 1983–1985 average US$ exchange rate, deflated by the relative foreign/US inflation rates. This method is used to smooth the effects of price and exchange rate movements on GNP estimates. Where the above data did not exist, United Nations per capita GNP estimates were used.
Source: *World Development Report,* 1987, World Development Indicators, Table 1 and Box A.1, UNSO, *Statistical Yearbook.*

Column 4 Population multiplied by 1985 purchasing power parity per capita GDP taken from Robert Summers and Alan Heston; "A New Set of International Comparisons of Real Product and Prices: Estimates for 130 Countries, 1950–1985", *Income and Wealth,* Series 34 Number 1, March 1988.

Column 5 1985 population. Source: *IFS,* row 99z, UNSO *Statistical Yearbook.*

Column 6 Purchasing power parity per capita GDP.
Source: see column 4.

Column 7 The letter B signifies that benchmark data exists from the various stages of the ICP Project and thus these estimates tend to be the most reliable. The letter S in this column signifies that Heston and Summers have used a "short-cut" method of estimation. This PPP per capita GDP estimate is generally less reliable. The letter A signifies that no Heston/Summers PPP per capita GDP estimate exists. For these countries, an average of the Heston–Summers estimates for similiar countries, (geographically and demographically) have been used.

Ranked by column 1.

Table H.

Column 1 Present voting rights in the IMF, before adjusting for creditor and debtor positions. Equals basic votes (4.03 percent of the total, divided equally between all member countries) plus votes based on share in quota.

Column 2 Basic votes plus 45 percent of column 2, 45 percent of column 4, and 10 percent of column 5.

Column 3 Basic votes plus 40 percent of column 4, 40 percent of column 5, and 20 percent of column 7.

For other columns, see notes to Table G.

Ranked by column 1.

Country classification

For the country classification used by the IMF and shown in text Table 1, see *World Economic Outlook,* IMF, April 1988, pp. 103–106.

Appendix B

TOWARDS IMPROVED DECISION-MAKING IN THE UN SYSTEM

Lal Jayawardena

The UN system is characterised by two distinct kinds of decision-making. In the international financial institutions — the World Bank and the IMF — decisions are vested in Boards of Executive Directors chaired by the heads of each institution and comprising a little over 20 representatives. Groups of countries, typically, join together into a constituency to choose a director to represent that constituency; and rules for rotation mean that each country will take its turn to have its national represent the constituency as a whole. The major powers have invariably enough weight in terms of the criteria adopted to be "single member" constituencies. While decisions are formally subject to weighted voting — and the United States enjoys for many purposes a veto power — as a practical matter the Chairman of the Board gauges the sense of a meeting before coming to a conclusion. Decisions are formally binding on the membership of these institutions so that each member country in effect accepts a mechanism whereby its decision-making power is entrusted to its Executive Director. Directors therefore function as "representatives" rather than "delegates" and inevitably enjoy a substantial element of discretionary authority.

In the rest of the UN family, decision-making has been based upon the old-established principle of "one country — one vote". This is most obviously true of the General Assembly of the United Nations, and of the periodic issue-specific conferences of UN member states, for example, UNCTAD and the Conferences on environment, population, food, etc. Nevertheless, the sheer unwieldiness of decision-making among the membership as a whole has led in time to various

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mechanisms whereby one group of countries can, in some sense, represent the claims of others. Typically, for example, decision-making between conferences of the entire membership of the United Nations is entrusted to a sub-set of countries, the Economic and Social Council (ECOSOC) in the case of the UN, the Trade and Development Board in the case of UNCTAD, and comparable Governing Councils for each of the other UN specialised agencies.

The Group System

Both within the subsidiary bodies and at the level of the membership as a whole, "representative" decision-making has been facilitated by the group system. In UNCTAD, for example, the developed countries caucus together separately as Group B. Within Group B identifiable sub-groups also function informally, the Nordic Group, for example, and the group of like-minded countries — a group of "middle powers" outside the big "five" — which has sought more or less explicitly to build bridges with the developing countries, and assist in evolving workable compromises on contentious issues.

The task of representation is here served by designating a single spokesman for the group as a whole. While informal negotiations are entrusted to a single representative, a more nuanced position can only be expressed as a statement of a sub-group in a more formal plenary session, as has indeed often happened in the case of the Nordic Group of countries. Representation in this sense, therefore, gives special weight to the lowest common denominator of views held by various countries; in the case of Group B, for example, what has often continued to prevail and be articulated as the Group B view, is that taken by the "hardest-line" country. Considerations of group solidarity, in other words, tend to polarise negotiating positions and this is clearly true of the Group of 77 (G77) as well, where a similar convention of designating a single group spokesman has evolved. Within the Group of 77, regional groups also caucus separately, and it is often through presentations by spokesmen of regional groups that a joint G77 position on a particular issue emerges for articulation by the spokesman of the G77 at a meeting of a negotiating group.

The course of a typical UN Conference is, therefore, punctuated by meetings of informal negotiating groups within which the groups of developed and developing countries attempt to both articulate and simultaneously narrow differences. The nature of the processes outlined above means that a substantial part of the time of a Conference is spent on the reiteration of polarised negotiating positions without much "give" on either side, with the result that it is left to the President of the Conference or its Secretary-General to bring about workable compromises in the last 24 hours or so of the Conference through so-called "package" deals conducted off-stage. In between, representatives and spokesmen are obliged to report on developments to parent groups and subgroups and seek legitimacy for fresh negotiating positions. In between, also, the bridge-building efforts of the like-minded group of countries, for example, can help provide compromise formulae. But in the nature of the case, as the experience of UNCTAD amply demonstrates, major breakthroughs have been few and far between, and conditioned by the atmosphere of the last 24 hours of the Conference, when last minute instructions can sway the positions of key delegations. A further complication is that, after all this effort, the recommendations of a Conference carry only hortatory or moral value and are in no sense binding.

The weaknesses, then, of the decision-making process outside the Bretton Woods institutions are an unnecessarily protracted polarization of negotiating positions, a time-consuming procedure for arriving at group positions involving frequent referral-back by representatives and spokesmen to parent groups and sub-groups, the devaluation all around of levels of representation, and a notable absence of substantive breakthroughs, which even when they occur lack any binding character. Group spokesmen are too often obliged to function as "delegates" rather than as "representatives."

Over the years, the international community has been gropingtowards ways of improving upon these twin decision-making processes. Two weaknesses, in particular, require mention. In the Bretton Woods institutions, the developing countries feel that they are very much "under siege" and are bound to accept decisions over which they do not have much "say". While it is true that the normal run of decisions are taken on the basis of a sense of the meeting, the realities of weighted voting are such that what is involved is no simple "head count". The fact is that the views of constituencies with a higher weightage in the total vote count for a great deal more.

Conversely, the developed countries have felt under siege in the rest of the UN system where the principle of one-country, one-vote prevails. While no binding decisions are involved, majority decisions, often of a censorious character from the standpoint of developed countries, have a great deal more than nuisance value, as for example in the debate on the New International Economic Order in the early 1970s. The problem has been exacerbated over the years with the admission into the United Nations of an increasing number of "micro states" leading to the charge of decision making being always at the mercy of the "tyranny of the majority".

Even within the Bretton Woods system, events since the emergence of the Group of 24, the temporary ascendency of OPEC, and the working of the Interim and Development Committees, had given the major developed countries the sense that decision making could be more comfortably arranged if they withdrew into separate sub-groups. This was especially the case with the emergence of annual summits of the major powers — the G5 — where decisions essentially taken within the G5 could then be imposed on the international financial institutions through the mechanism of weighted voting. The questions that need to be addressed are what new departures are feasible now to deal a) with the withdrawal of the G5 from the rest of the international system and, b) with the increasing frustration felt both by developing and developed countries over the incapacity of the UN system to enter meaningfully into the debate on economic issues.

The Capacity of the UN System

A key problem of the UN system surfaced by this analysis, has been its inability, outside the framework of the Bretton Woods institutions, to evolve satisfactory representative mechanisms, i.e. ways in which a small group of countries or representatives can take decisions and make commitments on behalf of all member states of the system. As noted, in the decision-making process evolved so far, group spokesmen function more as delegates than as representatives, requiring frequent reporting back to a parent group for further instructions; this is in contrast to the effective authority enjoyed by Executive Directors of the Fund and the Bank as representatives of their constituencies. In so far as proposals for international economic reform involve an intellectual process where participants are required to change their minds in response to arguments and counter-arguments, it is inevitable that what is required are "representatives" rather than "delegates".

The UN system has in the past evolved a formula for tackling complex intellectual and policy issues which is that of an Expert Group or Study Group of people functioning in their personal capacities, but drawn from a spectrum of countries which can be thought of as fairly representing the membership of the United Nations. A notable example of a successful group of this kind was the Expert Group on International Monetary Issues[1] which was convened by the Secretary General of UNCTAD in response to a resolution of the first UNCTAD in 1964. This group, which reported in 1966, was the first to articulate in an international context the proposal for a link between the creation of international liquidity and the provision of development finance. The group had no formal status, and consisted of eminent economists functioning in their personal capacities and drawn from a selection of countries representative of the United Nations.

Any such group can only command support by virtue of the power of its ideas and the British Commonwealth Secretariat[2] has made extensive use of this device to contribute to the international discussion of key issues. A more modern version of such a group is the WIDER Study Group[3] on the recycling of the Japanese surplus, where again the Group received a degree of prominence merely by virtue of the relevance of the ideas developed by it.

No such expert group, however, comprising people serving in their personal capacities, can play a role in *decision-making* as contrasted with contributing ideas. One possible alternative, again with precedent in the United Nations, is that of a representative negotiating group of countries selected either at the discretion of the Secretary General of a conference or through a process of selection from within each group. The mandate of any such Group is to consider an issue within a given time frame and come up with a unanimous set of conclusions.

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[1] United Nations Expert Group on International Monetary Issues, 1966.

[2] Commonwealth Secretariat. *The North-South Dialogue, Making it Work.* Report by a Commonwealth Group of Experts. (1982)

[3] WIDER Study Group Series 1 and 2. *The Potential of the Japanese Surplus for World Economic Development* 1986, and *Mobilizing International Surpluses for World Development: A WIDER Plan for a Japanese Initiative.* UNU/World Institute for Development Economic Research, Helsinki, 1987.

The Group of 24

A notable example of this is the Group of 24 which first met informally in Geneva in 1971. The Group met in terms of a resolution of the Lima meeting of the Group of 77, which asked for the convening of a Group of 15 developing countries to take stock of the international monetary and financial situation in the wake of the US decision to abandon the convertibility of the dollar into gold. Initial consultation within the regional groups of the Group of 77 revealed that more countries were insistent in participating than could be accommodated within the strict terms of the resolution. The number was accordingly increased from 15 to 24 with each of the regional groups providing eight members instead of five.

The composition of the Group of 24 has remained unaltered since its inception without any procedure for rotation. This became possible simply by adopting the convention of treating the Group as open-ended, so that any other interested developing country would find a place at the conference table if it so wished. The Group of 24 has become, since its inception, the vehicle for evolving developing country positions on international monetary and financial issues. In advance of meetings, initially of the Committee of Twenty and subsequently of the Interim and Development Committees, it has also been able to move beyond the task of reacting to agendas determined for them by these Committees, towards evolving independently a developing country position on on-going issues. For this purpose, it was able to enlist in modest fashion the equivalent of secretariat support through the medium of a UNDP funded technical assistance project. The Group of 24 was able, for example, to benefit from a series of country studies of the adjustment process commissioned by the G24 secretariat, and by this means intellectually to buttress the case for a long-range adjustment facility within the IMF. A good deal of the intellectual thrust of the argument developed within the Group of 24 has indeed been accepted in parallel reform processes within the IMF and the Bank — the Extended Fund Facility in the IMF, and its more recent Compensatory Financing and External Contingencies Facility, for example, and the structural adjustment facility in the Bank.

In sum then, the G24 experience with decision-making does serve to establish the fact that a representative group can work without any explicit constituency system in the sense that a small group of countries can legitimately speak for a larger group. Second, it established that intellectual preparation through the medium of a secretariat can contribute materially to the advancement of the political causes pressed by the Group. Finally, however, the G24 system still remains handicapped by its incapacity to take decisions which may be regarded as binding. Such decisions are, however, within the purview of the nine executive directors of the Fund representing developing country constituencies; and since these directors sit with the Group of 24 and can speak both as directors representing constituencies and as country representatives, there has been no practical difficulty in transmitting the viewpoint of the G24 through the G9 to the Executive Boards of the Fund and the Bank. But the general problem of evolving binding decisions *outside a constituency* based framework of representation remains.

How Representative Groups Can Function Effectively

Two examples of representative negotiating Groups functioning multilaterally that come to mind are the Committee of Twenty in the World Bank/IMF context charged with the development of proposals for the reform of the international monetary system, and the Group on Supplementary Financial Measures convened in an UNCTAD context as a representative group where countries were selected, as in the Group of 24, by regional groups. The Committee of Twenty was in essence a meeting between the Deputies of the Group of Ten, the principal industrialized countries, and Deputies from developing countries representing nine constituencies, with Australia being the 20th. Each constituency was represented by two deputies so that 40 persons were present in the conference chamber. Secretariat facilities were provided by a secondment of Bank and Fund staff to an elected Bureau comprising the Chairman of the Deputies and four Vice-chairmen, two each representing developing and developed countries. The debates took place in a series of three-day meetings at which Deputies responded quite literally in telegraphese, in the two or three minutes allowed to each, to questions put together by the Bureau of the Committee. The responses at any one round of meetings provided the basis for a set of questions to come at a future meeting. The objective was to duplicate, through a multilateral process of discussion and thought, the work that Keynes and White were allowed to do in their individual capacities at Bretton Woods. Decisions would, of course, be binding because of the link between Deputies and the contituency system. Interestingly, Deputies functioned as "representatives" rather than as "delegates" symbolized by each Deputy being identified by name at the meeting rather than sitting behind a constituency label.

The other example of a multilateral representative group worth noting is the Group on Supplementary Financial Measures that emerged to study a resolution of UNCTAD I in 1964, which investigated the need for a facility to insure developing countries against short-falls in exports from a level of reasonable expectations underlying a development plan with a view to ensuring the integrity of that plan. What was unique about this Group was that it functioned, without explicit substantive secretariat support, on the basis of position papers developed by individual representatives. Since the Group was convened under UNCTAD auspices, the chairman had, of course, the assistance of the UNCTAD secretariat for logistical purposes. The major substantive documentation, however, came from the World Bank which was asked by the UNCTAD resolution to provide a staff study on a scheme for implementing supplementary financial measures; and the debates hinged on whether or not the Bank scheme was superior to a scheme prepared by the delegation of the Federal Republic of Germany. What is of interest, from today's vantage point, in the work of this Group is, again, the degree to which many of the issues raised and lacunae pointed to in the international system are tackled, though not of course as fully as might be desired, in the most recent compensatory financing and external contingencies facility of the IMF. The eventual recommendations of the Group to UNCTAD Conferences involved a resort to majority voting, and the whole issue died as an UNCTAD proposition for this reason, because key donor governments repudiated the Bank scheme which proved acceptable to the developing countries. The developing country majority vote proved, in effect, to be useless.

It was this experience with the effective functioning at the intellectual level of representative small groups that led to the proposal, first developed in the report of the United Nations Group on Restructuring,[4] for small representative negotiating groups to become the typical *modus operandi* of the

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[4] A *New United Nations Structure for Global Economic Co-operation.* Report of the Group of Experts on the Structure of the United Nations System, United Nations New York, 1975.

UN system in the economic sphere. The immediate background to that report was the proliferation within the UN system of deliberative and legislative groups which countries could afford to service only by lowering the level of their representation. There had been extensive duplication with the same issues being discussed in ECOSOC, UNCTAD's Trade and Development Board and the governing bodies of the specialized agencies of the UN system. Although the duplication has had well-known historical antecedents going back to the need felt by the developing countries to have a better focus on development problems than had previously been possible through ECOSOC alone, the fact remained that the task of servicing these various bodies was daunting even to the best-equipped developing country delegations, with the result that levels of representation became devalued.

Proposals of the Restructuring Group

The idea that evolved to remedy this state of affairs was that of a perpetual ECOSOC, meeting all the year round in issue-specific representative negotiating groups. For example, global issues of relevance in agricultural policy, industry, the environment, money and finance etc., could be discussed by the relevant top policy makers from capitals, meeting in New York for no more than a few days on the model of the Committee of Twenty Deputies or the Group on Supplementary Financing. Meetings would be jointly serviced by *ad hoc* secretariats drawn from the relevant specialized bodies, e.g. FAO, UNIDO, UNEP, UNCTAD and the Bretton Woods institutions on the one hand, and ECOSOC on the other. Any such negotiating group would, typically, have a one to two-year time framework within which to arrive at unanimous decisions. Following the precedent of the Committee of Twenty, any such negotiating group would require very tight handling, and the suggestion was that the chair should be entrusted to someone with the necessary professional expertise rather than, as happens in the normal UN context, to a professional diplomat.

The Group on Restructuring also addressed the issue of the status of recommendations emanating from negotiating groups. In line with the convention concerning the non-Bretton Woods part of the United Nations system, it would be difficult to see how a decision-making structure based upon representative groups *not* selected on a specific constituency basis could come up with decisions of a binding character. At the same time, since decisions of a negotiating group were expected to be unanimous and the product of mature deliberation over a protracted period, within which it was open to representatives to change their minds in response to arguments developed at the meetings, the decisions could be expected to have a greater degree of legitimacy than, say, a decision adopted by a majority vote. The issue then was to evolve a procedure whereby the superior legitimacy of negotiating group decisions would be more explicitly recognized.

One line of solution to the problem concerns the case where the decision of a negotiating group would enjoin a particular pattern of behaviour on the part of member states — for example a commitment to reach a particular target for official development assistance by a particular date. The idea that emerged was that in such cases where targets, or particular codes of conduct were suggested on the basis of mature reflection, countries should be placed under a *prima facie* requirement to conform, with some kind of sanction or penalty attaching to non-conformity. Since no legally binding commitments were envisaged, expulsion in any sense from a relevant body would not become feasible. The alternative was that of periodic reporting by ECOSOC on the performance of countries in respect of the behaviour being legislated for and an obligation, cast upon non-performing countries, to explain in open forum why it had failed to behave as required by the negotiating group's decisions. Some such process of "peer group" pressure had been evidently at work in the OECD context in the early phase of liberalization of trade and more recently in its Development Assistance Committee (DAC), where performance of members in relation to development assistance goals are subject to review. What was envisaged was the extrapolation to the wider United Nations system as a whole of comparable "peer group" pressures. If it were desired to vest a negotiating group recommendation with a greater degree of "bindingness", their implementation would have to occur via the Bretton Woods or GATT institutions.

An issue also considered by the Group on Restructuring was the size of negotiating groups. As the Group observed, "negotiating groups would be of manageable size normally between ten and thirty and would include countries principally interested in the subject matter whether or not they were members of the Council". The group observed in a footnote that, "the group could be smaller than ten only if the majority of members of the General Assembly or the Council so desired. Each group would be open to all countries with an interest in the subject matter. However, in case the size of the group became unmanageable, it would be open to the Council to select the participants with a view to making the group as representative as possible and promote agreement in the Council and the General Assembly".[5]

The question which arises in today's context is that of where between ten and thirty the optimal size for a negotiating group can be set. At one extreme, it has been argued that a group as large as twenty-two, as in the case of the Executive Board of the IMF, has worked effectively despite its relatively large numbers. It should, however, be borne in mind that Executive Directors work together in Washington on a *full time* basis and have every opportunity to get to know each other's views and interests. Experience with the IMF's Interim Committee or the Joint IMF/World Bank Development Committee suggests that a body of twenty-two members is far too large for effective discussion between national officials who only meet relatively infrequently. The discussion, for example of the world economic outlook in the Interim Committee, can fairly be characterized as a species of "multilateral monologue" involving a sequence of twenty-two set speeches without any genuine interchange. The experience of debate in the OECD with twenty-four members has been similar and real discussion in plenary sessions only became possible if a significant number of participants agreed to remain silent. This contrasts with the experience in OECD's Working Party Three with ten members in which many lively and fruitful discussions have taken place. To quote Stephen Marris in his *Proposal to Create the Group of the Non-Five,* "put bluntly experience suggests that in groups of ten or less where real interchange is possible, people can be persuaded to change their minds while in larger bodies this rarely happens" (see Appendix A).

This observation, based upon a lifetime's experience of international economic negotiations, is confirmed by the finding of a Commonwealth Expert Group on the *North-South Dialogue: Making it Work.*[6] The Group argued that 'for consideration and negotiation of the majority of economic issues, it is possible to constitute a representative sub-group of the Group of 77 comprising only a small number of delegations.

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[5] *Ibid.* page 12, para 31.

[6] *The North-South Dialogue, op.cit* page 54. para 425.

For illustrative purposes, we suggest the number might be as low as eight, *viz* one member each from the following categories of Group of 77 countries: i. OPEC, ii. Other oil exporting countries, iii. Newly industrializing countries, iv. Least developed countries, v. Landlocked countries vi. India, given its continental proportions, vii. Countries with a national income per capita of more than US$ 750., viii.Countries with a national income per capita of US$ 750 or less." The cutoff magnitudes might be revised today to, say, US$ 1,000.

If, in line with the considerations developed so far, effective decision-making has to take place in groups of ten or less, then the question is whether the world system can move further in the direction of being able to take *binding* decisions by having small groups linked quite tightly to a *constituency* basis of selection. It is with the details of a specific proposal to this end that the next section will be concerned, namely, the creation of a Group of the Non-Five.

A Proposal to Create the "Group of the Non-Five"

As previously mentioned, the current situation is characterized by the withdrawal of the G5 countries from the rest of the international system. They have thus been able to take key decisions affecting countries outside the Group and implement them in a more formal way in the Fund and the Bank through the substantial weight they possess in decision making in these institutions.

This process has at least two disadvantages. In the first place sanctions that would ordinarily be applicable to an IMF member country in deficit can in effect be by-passed by a deficit G5 member. As Stephen Marris observes, "While the debt crisis, for example, greatly increased the leverage of the IMF vis-a-vis the developing countries, the reverse has been true for the developed countries with the United States being the most flagrant example. When the inflow of private capital needed to finance the enormous US current account deficit dried up in 1987, the central banks of the Group of Ten lent some US$ 120 billion to the United States, subject only to some vague promise to reduce its budget deficit made in a forum outside the IMF, without any semblance of the performance requirements which have become a standard feature of IMF lending".[7]

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[7]Stephen Marris, *A Proposal to Create the Group of the Non-Five.* (See Appendix A). The remainder of this section draws extensively on the text and analysis of this paper and, in effect, summarizes the proposal.

The second disadvantage is that countries excluded from the G5 decision-making process are denied the opportunity of knowing the political obstacles to agreement in particular cases and indeed of influencing the outcome by contributing to decision-making as neutral observers. It is, for example, asserted by officials of the G7 countries in defence of the exclusion both of the international organizations and other members as follows: "We are members of these organizations, we participate in all discussions, we read all the papers, we know what the other countries think. So what's the problem?" As Stephen Marris argues, "the problem is that this leaves out of account the *internal dynamics* of the preparation of international meetings and the decision-making process at such meetings. It is only by participating fully in this process, as of right, that officials of the smaller countries, and of the international organizations concerned, can properly grasp the political obstacles to agreement, can see at close hand the stumbling blocks arising from differences on matters of fact and analysis, and can thus play positive, constructive — and quite often decisive — roles as neutral observers and intermediaries." It is no accident that critical roles are often entrusted in the UN system to individuals coming from small countries and possessing the necessary abilities, whether functioning as country representatives or as international officials. In the absence of a constituency-based system, however, no effective decision-making role is permitted to such neutral intermediaries.

The Composition of a Ten-Member Governing Board

One way of overcoming these deficiencies is the setting up of a Group of the Non-Five countries with an *explicitly constituency-based* Governing Board consisting realistically of no more than ten members. This would allow, illustratively, for three members each from Europe, and Asia-Oceania, two from the Western Hemisphere including Canada, and one each from Africa and the Middle East. Illustratively again, in Europe, there could be two European Community constituencies, and another primarily made up of Eastern European and neutral countries. In Asia and Oceania, there might be two constituencies formed under the leadership of India and China, and a third Pacific Rim constituency including Australia and New Zealand. In the Western Hemisphere, Canada might join in a constituency including Central America and the

Caribbean, as is indeed partly the case today in the IMF, with a second South American constituency.

A smaller Board of seven members would turn out to be feasible and highly desirable from the standpoint of limiting numbers, but only if the three largest regions — Europe, Asia and Oceania, and the Western Hemisphere — were prepared to accept being somewhat under represented in relation to their voting power, to the benefit of the two regions with the fewest votes, Africa and the Middle East. Table 1 (see page 20) sets out alternative configurations of Governing Board representation, voting rights according to the objective criteria outlined below in Formula A, and numbers of countries involved.

Normally, when it came to decision-making, each member of the Governing Board would cast his vote as a block, weighted according to the total voting power of his constituency, as in the IMF. Insofar as possible the rules and procedures should be designed to promote compromise and consensus within each constituency. But there should also be provisions such that under clearly defined and relatively rare circumstances there would be a 'free' vote, with countries allowed to cast their vote individually rather than through their constituency. Within any such ten-member constituency based system, there would be sub-groups established with no more than ten or 12 members to deal with monetary affairs and the IMF, trade and the GATT, development and the World Bank, etc.

The other elements that need to be discussed concern the formula for selecting the ten-member Executive Board, the mechanics of providing the Board with a secretariat and finally the overall mandate of the Group. The illustrative ten-member Board has been based upon a formula — Formula A in Table 1 — for determining voting shares which is entirely linked to three *objective* criteria, namely, trade, gross domestic product (GDP) recalculated according to the purchasing power parity of countries, and population. Formula A implies giving equal weight (45 per cent) to trade and purchasing power parity GDP plus a ten per cent weight to population. On this basis, as indicated in Table 1, the five constituencies outlined above will have the following voting rights (expressed as percentages of the total): Europe 33.4, Asia-Oceania 32.0, Western Hemisphere 18, Africa 8.5 and Middle East 8.1. As mentioned, Europe would have three seats on the Board, Asia-Oceania also three seats, the Western Hemisphere two, Africa one and the Middle East one.

The principal justification for choosing Formula A is that, when applied to the IMF membership, the Formula yields a distribution of voting power for broad country groupings that corresponds to the current IMF Formula. Where departures occur from the IMF voting structure in respect of particular groupings or countries, these would represent corrections for manifest inadequacies in the current IMF Formula.

Thus the broad balance between the developed and developing countries in the IMF, roughly 60/40, remains unaltered as between the current IMF Formula and Formula A and this is assumed to be a reasonably accurate reflection of the realities of the world today in terms of economic and political power. The shares of both the G7 and the Non-G5 also remain roughly unaltered. The principal differences arise with regard to the somewhat reduced share of the European Community, and the significantly increased share of the low-income group of countries, the latter essentially because of the use of purchasing power parity GNP. These considerations are brought out more explicitly in the tabulation in Table 2 (see page 22).[8] The table highlights an important difference in the distribution of voting power regionally among the developing countries as between the two formulae. The share of Asia rises because of the inclusion of population, while that of both Africa and Latin America decline, reflecting in part their relatively less good economic performance, *vis a vis* Asia.

The major differences for individual countries within these broad groupings go in the direction of correcting for anomalies in the IMF's voting structure and are shown in Table 3. Thus, the combined share of Japan, Germany and Italy rise by nearly 4.5 percentage points, the main counterpart being a further reduction in the voting power of the United States and especially the United Kingdom.

Increased shares for particular developing countries result from giving some weight to population (China, India, Brazil, Mexico, Iran, Indonesia) and excellent economic performance (Korea, Singapore). The increase for China also reflects the stagnation in its IMF quota during the long period when it was represented by the authorities of Taiwan.

The main decrease in developing country shares in

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[8]The use of the purchasing power parity concept as a way of redressing the imbalance of developing countries in IMF quotas was first put forward by Riccardo Arriazu, Alternate Director to Carlos Massad, in a paper to the IMF Executive Board in November 1969.

Formula A affects OPEC countries — a fall of 3.5 percentage points for Saudi Arabia, Venezuela and Kuwait taken together. In these countries, the voting power in the IMF was adjusted to reflect their financial interests after the first oil crisis. In Formula A, based on purely objective criteria, OPEC countries enjoy, instead, a voting share that reflects the substantial weight of oil in world trade.

The secretariat for meetings of the Group of the Non-five could rely upon a technique developed both in SELA and the non-aligned movement whereby national officials are seconded to a secretariat for a period of two to four years.

The Mandate of the Group of the Non-Five

The mandate of the new Group should cover all the major issues pertaining to the management of the world economy and the activities of all the relevant international organizations. As already noted, sub-groups would be created where relevant.

Within this institutional framework, the objectives of the new Group would be as follows:

1. To loudly and persistently lobby for representation in the G5/Summit. The new group would announce from the outset that, if invited, it would be prepared to designate one or more of its members to participate in the Group of Five and Summit meetings.
2. To develop joint positions on all the main issues pertaining to management of the world economy — exchange rates, interest rates, finance, debt, trade, etc.
3. To demonstrate, by its own mode of operation, the possibility of developing an efficient (i.e. small) but representative vehicle for discussion and negotiation on the major issues of international economic cooperation.
4. To resist, by all possible means, further erosion of the multilateral institutions resulting from the increasing tendency of the Group of Five and the Summit to take key decisions outside the existing multilateral framework. This could include using the considerable influence that the group would have within these organizations to try to ensure that relations between them and the Group of Five and the Summit were not

just a one-way street, as is to a large extent the case today.

5. To develop proposals for a major reform of the existing international institutional framework.

The mandate should lay out very clearly the Group's essentially *political* objective of providing a counterweight to the Group of Five. In doing so, however, it should be stressed that the aim is not to create a new division between 'them' and 'us', but rather to mobilize pressures to narrow and eventually bridge the gap. Thus the ultimate aim of the new Group would be to make itself redundant.

A World Economic Council

Looking further ahead, the Group of the Non-Five mechanism could be used to resuscitate meetings of heads of state in a wider group of the Cancun variety which could meet periodically. This could supplement an initial mechanism which would provide for joint meetings of the G5 Summit countries and the Governing Board of the new Group of the Non-Five, both at the level of heads of state and of ministers. Looking still further ahead, one could aim towards the establishment of a World Economic Council based upon a constituency system which would take on the economic responsibilities assumed by the present Summit of the five key countries. It would thus provide a representative forum for the discussion of key economic issues affecting the world economy at the highest political level. It would also provide a vehicle through which further institutional reform could be negotiated. and through which oversight could be exercised over a set of reformed global institutions run by constituency based governing boards.

While no doubt premature, it is tempting to speculate about what the composition of such a World Economic Council might look like. If it did not include the USSR, the possible regional composition, based on formula A voting power, for a Council with between seven and ten members, is shown in Table 4 (page 30). Interestingly enough, seven turns out to be a good number, with two members each from Europe, the Western Hemisphere, and Asia and Oceania, and one from Africa and the Middle East. In this format — and if so wished — four of the present G7 countries could be members, the United States, Japan, and two G7 countries from Europe, with the addition of three members representing Latin America, Asia and Oceania, and Africa and the Middle East.

Alternatively, the United States by virtue of its voting power, might be given a 'single member' seat, with the other members selected by the six remaining regional constituencies.

Such a seven member Council looks as though it could be both representative and efficient. Difficulties could arise, however, especially in Europe, where there would be little difference between the voting power of France and the United Kingdom, but there would not be room for both. An alternative would be to have ten members, which would help to solve this problem, and could also open up the possibility of a Western Hemisphere constituency headed by Canada. In other words, with ten members, six constituencies might be headed by G7 countries.

If and when the USSR were invited to join, the 'good' numbers for the size of the Council turn out to be eight or eleven (Table 5). This statistical fluke is convenient, since it means that representative membership could be achieved by simply adding one seat for the USSR and Eastern Europe to either a seven or ten member council (although in the latter case the USSR and the other socialist countries of Eastern Europe would be somewhat under-represented in terms of voting power). In an eight member Council, the OECD countries would have four seats (with 54 per cent of the voting power), the developing countries three, and the USSR and Eastern Europe one.

Conclusion

The UN system currently faces the task of combining representative decision-making by a small group of countries on behalf of its wider membership with that of making these decisions "stick", that is to say, to be made binding in some sense on that wider membership. Within the Bretton Woods system, there is a familiarity with binding decisions being taken by representatives who are selected on a constituency basis by member countries. Outside the Bretton Woods system, in the rest of the UN family, representative mechanisms have, indeed, been evolved but they are unsatisfactory in many ways and especially for the reason that decisions lack binding character.

Reforms suggested for the non-Bretton Woods UN system have been in the direction of moving systematically towards small representative negotiating groups, working within a time-bound unanimity rule; their recommendations, while carrying greater weight than those resulting from majority decisions, might have some sorts of sanction associated with them, but would, nevertheless still lack a sufficiently binding character. Pending these reforms, we have seen a situation where, even within the Bretton Woods system, decision-making has tended recently to occur outside a legally-constituted framework, namely within the Group of the Five Summit Countries.

It is with the objective of restoring a truly international system of decision-making, where a constituency based representative group can take binding decisions on behalf of the rest of its membership, that the concept of a Group of the Non-Five has been advocated.

For further information on WIDER publications contact:

WIDER Publications
World Institute for Development Economics Research
Annankatu 42 C
SF-00100 Helsinki
FINLAND
Tel. (3580) 693 841
Telefax (3580) 693 8548
Telex 123455 unuei sf

From the Financial Times – August 30, 1989

Thinkers who were once doers give economics a good name

A Helsinki-based group dedicated to a balanced global system knows what it is talking about, writes Olli Virtanen.

"...A second, and more novel proposal by WIDER designs a counterforce to the Group of Five and Group of Seven. WIDER points out that "key decisions, whether on the debt problem, the setting of international exchange rates or global macroeconomic policy coordination, are taken within a limited group of developed countries, the inner core of which consists of the G5/ G7 countries".

WIDER feels strongly that the rest of the world should also have a say on global matters. So, it recently published a plan that would at first create a council of the "Non-Five", composed of representatives of five geographical constituencies. This body of seven to 10 members would form a counterpart to the G5 and eventually the two groups would form a global platform, the World Economic Council.

According to Dr. Jayawardena G5 economic summits have structural weaknesses that are harmful for global economic development.

"Once the G5 takes a decision, it's all over", he says. The rest of the world remains outside of the debate. Even Japan, a member of the G5, often feels itself "imprisoned" by the political considerations (such as electoral timetables) of the rest of the group.

As the WIDER study puts it, Japan's "potential initiatives for imaginative international action tend to be stifled and muted in their public expression by the concerns of other members of this limited group". This, maintains the study, was the fate of the Miyazawa debt plan presented in June 1988 in Toronto..."