

ASIA IN GLOBAL GOVERNANCE: A CASE FOR DECENTRALIZED INSTITUTIONS

Masahiro Kawai, Peter A. Petri and Elif Sisli-Ciamarra

24 June 2009

Abstract

The global economic crisis refocused attention on the governance of international economic institutions (IEIs). This study uses the analytical framework of club theory to highlight structural obstacles to reform in international macroeconomic management, development finance, trade and financial stability. It argues that reforms currently discussed—for example, in voting power in the IMF and the World Bank—are important, but not sufficient to make IEIs adaptable to the demands of a rapidly changing world economy. It proposes transforming IEIs by shifting more decisions from the global to sub-global levels. Partially decentralized decision making already exists in some policy areas (for example in regional development banks) and could expand and improve the provision of international public goods.

Keywords: international economic governance, international organizations, IMF, World Bank, WTO, club theory, economic institutions

JEL classification: *F02, F13, F33, F42*

Correspondence: Peter A. Petri, ppetri@brandeis.edu. The authors are Dean, Asian Development Bank Institute; Professor, Brandeis University; and Assistant Professor, Brandeis University, respectively.

CONTENTS

Introduction	3
Implications of club theory	5
<i>Provision</i>	6
<i>Membership</i>	6
<i>Club dynamics</i>	7
<i>Competition and adaptation</i>	8
International institutions as clubs.....	9
<i>Macroeconomic stability</i>	10
<i>Development finance</i>	17
<i>Trade liberalization</i>	19
<i>Financial system stability</i>	20
Governance reform of international economic institutions.....	20
<i>The governance trilemma</i>	20
<i>Institutional families as a solution</i>	22
Applications and proposals.....	24
<i>IMF family</i>	24
<i>World Bank family</i>	26
<i>WTO family</i>	28
<i>FSB family</i>	29
Conclusions.....	30
References.....	32
Annex. IMF Votes as of April 2008	35

ASIA IN GLOBAL GOVERNANCE: A CASE FOR DECENTRALIZED INSTITUTIONS

Masahiro Kawai, Peter A. Petri and Elif Sisli-Ciamarra¹

Introduction

The global economic crisis has refocused attention on the governance of international economic institutions (IEIs), including especially the IMF. Although IEIs were invisible in the early stages of the crisis, there is growing agreement that they should be more central in managing and averting crises in the future. The IMF received special attention in the 2009 London Summit, but remains the “third rail” in the politics of many developing countries due to its role in the 1997-98 Asian crisis. Given the need to restore the IMF’s credibility, much recent work² has focused on what Edwin Truman has called the “chairs and shares” issues—concrete changes in the IMF’s management, staffing and voting structure. Less acute but also difficult challenges face other IEIs such as the World Bank, the WTO, and the proposed Financial Stability Board.

This study takes examines IEI reforms from an analytical perspective—based on the theory of clubs—that highlights structural challenges in international economic governance. It identifies a “governance trilemma” that makes it difficult for IEIs to be universal, democratic and effective at the same time. Reforms in chairs and shares are important, but do not resolve the trilemma and are not likely to make IEIs adaptable to the demands of a rapidly changing world economy. More systemic innovations will be needed.

One promising strategy is to transform current IEIs into institutions (or families of institutions) with a partially decentralized decision making structure. This could be achieved by allowing

¹ The authors gratefully acknowledge research assistance by Akiyama Shigeru and comments by John West and participants in seminars at the Asian Development Bank Institute and the Western Economic Association.

² For example Truman (2008), IMF (2008a), IMF (2008b), Bryant (2008a), Bryant (2008b), Cooper and Truman (2007), Dervis (2005). A wider range of studies, some addressing structural issues as well as reform options, are collected in Truman (2006).

smaller groups of countries to make decisions within current institutions (an approach called “variable geometry” in some contexts) or by developing closely linked institutions with different memberships. In either case, some authority would shift from the global to sub-global levels. This shift would make international decisions more flexible and accountable, making them more like decisions within countries which typically involve several layers of government. Specific applications to international institutions will be suggested below.

Such decentralized decision making is not hypothetical; it already exists in some international policy areas and its relative importance appears to be rising over time. The World Bank is complemented by four major regional development banks and several other multilateral banks. World trade agreements are paralleled by many regional ones. And there are sub-global institutions (or *ad hoc* arrangements) engaged in macroeconomic surveillance and liquidity support. Recent reforms in the IMF suggest further intriguing changes in how—and by whom—loans are negotiated. All these trends, viewed in the present analytical context, point to more flexible and effective directions of governance.

To be sure, decentralized decisions create new challenges: sub-global decisions need to be made globally coherent in order to act as “building blocks” of a global system. This argues for paying close attention to connections within a decentralized structure. But if successfully linked, a partially decentralized system would help the world’s IEs respond to a wider range of problems, more quickly and more effectively. On a global level, the IEs could also focus more sharply on truly global issues.

The value of decentralization rests on its ability to yield public goods that are important to some, but not all, countries. Geographical proximity is one, but not the only, reason for similar preferences for public goods. For example, countries engaged in deep-sea fishing share common concerns related to the oceans will want to cooperate on arrangements affecting fisheries. Decentralization enhances the productivity of the world’s “public goods industry” and relieves pressure on global institutions to meet sub-global needs. But narrower public goods should not come at the expense of global ones; the institutional framework should have coherent global *and*

sub-global mechanisms as its ultimate goal. This requires changes in the functions of the existing global and sub-global institutions and, if needed, creation of new sub-global institutions.

To keep this analysis manageable, the paper focuses on the “big three” institutions (the IMF, the World Bank and the WTO) that address macroeconomic stability, development finance and trade liberalization, respectively. All were proposed at Bretton Woods in 1944, although the WTO formally came into existence only fifty years later.³ We will review criticisms of these organizations and the potential for applying a decentralized decision-making framework to their activities. We will also provide preliminary thoughts on how sub-global bodies may function under the proposed Financial Stability Board.

In addition to functional institutions, various country groupings (“G forums”) have also become important international actors in recent years. The G7 (large industrial economies) and the G8 (with Russia) have been the most active historically, but the G20 (the G8 plus major emerging economies) has gained prominence as a response group to the global financial and economic crisis.⁴ These forums play important leadership and coordinating roles, but are not (so far) IEs with a concrete institutional mission and charter.

Implications of club theory

International economic institutions are clubs in the sense that they produce goods that are at least partially non-rivalrous (more than one user can consume them) and at least partially excludable (users can be denied access to them). Their most important services include order and predictability in international commerce and finance. Although these services are generally enjoyed by countries without diminishing their value to others, IEs also offer services specifically to members that generate demand for membership.

³ The proposed International Trade Organization was not agreed, and the General Agreements on Tariffs and Trade was instead established to manage trade relations. It was replaced with the WTO in 1994.

⁴ The G24 (prominent emerging market economies) and the G77 (a more inclusive group of emerging economies) provide additional forums for developing country views. The BRICs have also attracted attention as a forum for the four most powerful emerging economies.

Club theory⁵ has been widely used in the economics and political science, including in the analysis of international organizations (Ruggie 1972, Fratianni and Pattison 1982 and 2001, Kahler 2000, Keohane and Nye 2000, Lawrence 2009). We focus on three major insights. First, the provision of club goods fills an important gap: clubs can lead to Pareto-optimal results by supplying public goods under optimizing conditions that are similar to those in market production. Second, the expansion of club membership tends to make clubs less effective: decisions are harder to align as the preferences of members diverge. Third, clubs tend to be relatively inflexible institutions: club charters are usually designed to maintain firm control in the hands of founding members and those who share their preferences.

Provision

Because clubs overcome free-rider problems by sharing costs, they produce services (and hence consumer surplus) that cannot be generated in markets. If a club maximizes the benefits of its members, it can be shown to bring the marginal rate of substitution between the services it provides and normal goods into equality with the marginal rate of transformation among them. Thus, the welfare implications of club decisions are similar to those of market decisions under competition: the relative prices of club goods, as other goods, equal their relative marginal costs of production. Since they operate in the global arena, IEIs offer services that are especially unlikely to be produced by markets, and their contribution to welfare is potentially very large. But the extent to which they “fill the space” of required public goods may be limited. As discussed below, IEIs, unlike smaller government organizations such as municipalities, are less likely to face competitive pressures that lead to efficient production decisions.

Membership

Clubs set criteria for admission and may limit membership. Analytically, they can be expected to equate the net benefit of adding a member to the costs imposed on existing members. Since many international public goods are non-rivalrous, IEIs have little reason to limit membership from the production viewpoint, but adding members does increase costs in decision-making.

⁵ See Sandler and Tschirhart (1980) for a comprehensive survey. Seminal contributions were made by Buchanan (1965) and Olsen (1965).

Political pressures for inclusion have nevertheless led to steady and substantial growth in the membership of the “big three.”⁶

Expansion tends to increase the heterogeneity of membership. This usually implies demand for a wider range of services and also, as Fratianni and Pattison (2001) point out, increased decision making costs. Since a member’s welfare depends on the extent to which the club addresses its preferences, its welfare may be lowered if the club becomes more diverse and begins to produce (from the member’s viewpoint) the wrong services. These effects may be especially costly to existing members if the club has an inclusive decision-making structure. For example, if decisions are made by consensus, then each new member gets an effective veto. Expansion has created problems in all three major IEs, and especially in the WTO, which is governed by consensus rather than qualified voting.

Club dynamics

Clubs are usually analyzed in a static context, under the implicit assumption that provision and membership are decided once and for all. But international institutions exist for long periods of time, and during this time their membership and external environment are likely to change. The extent to which clubs adapt to changing environments thus becomes increasingly important to their operations over time.

When a new club is created, members have common interests and design services to meet common needs. (In the simplest club models, decision making is not even considered, since any member is assumed to be representative and thus able to make decisions for a club.) This may be a reasonable approximation of the environment of the Bretton Woods era, when the U.S., U.K. and France took essentially all major decisions and awarded themselves a majority of the voting shares of global institutions, but is clearly not applicable today.

The founders of clubs recognize that over time their interests could diverge as other members are added and/or their relative power or external environment changes. To make sure that their

⁶ These pressures apply to all international clubs; for example, the EU expanded widely into Eastern Europe, APEC has included Latin American countries and Russia, and even the G20, just between its November 2008 and April 2009 meetings, expanded from 20 to 29 participants.

investments and contributions are nevertheless protected, founders usually adopt rules that limit changes in club policies and vest control in themselves and others who are likely to share their interests. Club charters do this by limiting changes in:

- membership by setting admission criteria to ensure the alignment of the interests of new members with those of old ones;
- the range of services provided by requiring supermajority votes on policy changes; and
- the charter itself by requiring supermajority votes for rule changes.

Charters thus make it difficult for clubs to change the types of services they offer, to admit “different” members, or to reform governance.

As a result of such rules, clubs are less adaptable than firms. A firm is responsible to shareholders in financial terms and is charged with adjusting its products and services to new commercial opportunities. By contrast, as long as a club remains in business, it will continue to produce only those services that benefit its controlling members, even if its assets could be more productively deployed to other services that address non-controlling members or non-member communities. Even if clubs initially satisfy optimality conditions similar to those of firms in markets, they will not do so as they age and, over time, the club’s production structure will diverge from that of a profit-maximizing firm.⁷ Since clubs tend to be long-lived,⁸ they face increasing efficiency losses as their members’ preferences diverge and environment changes. Meanwhile, their governance becomes more contentious and less decisive.

Competition and adaptation

Despite these rigidities, clubs may produce an optimum array of public goods if certain conditions hold. An interesting analysis of clubs takes particular advantage of the rigidities of clubs to argue that efficiencies can emerge from a competition among clubs. Tiebout (1956)

⁷ If clubs were easy to close, these objectives would merge, since the founders could dissolve an inefficient club, liquidate its assets, and distribute its assets back to the owners. However, clubs seldom dissolve this way.

⁸ An example of such exceptional longevity is provided by the OECD, which was established to oversee the Marshall Plan in 1948. Although this mission ended in 1951, the OECD found new missions and even a new name. In recent years it has become an especially useful platform for groups of countries that seek to find common ground and best practices in structural issues such as subsidies, investment, and competition policy.

assumes that different political communities offer stable portfolios of services and use those to compete for members. (The stability of services presumably reflects constraints in municipal charters.) System-wide efficiency is achieved if the number of municipalities exceeds the variety of preferences to be accommodated and each required services can be produced on a reasonable scale. People then sort themselves into homogeneous communities, each of which optimizes the provision of public goods consistent with their preferences. Unfortunately, some public goods have to be produced on a scale that does not permit such competition. This is especially so for international public goods, such as global systems of trading rules.

Clubs not only resist change, but also “take up space” and impede the development of new clubs in their areas of operation. If a new club becomes viable only by recruiting the members of an existing club, then existing clubs may prevent the new clubs from forming, even if the latter would generate greater benefits.⁹ They do this by making it just worthwhile for the marginal member of stay put in the old club, and thus deprive new clubs from the contributions of members of old clubs.

Thus competition does not help to overcome the rigidity of international clubs, as it might in the case for smaller governing units. Conventional reforms—say, adjustments in voting shares—will not help either, since at best they align decisions better with a club’s (changing) median member. We argue that reforms are also needed to facilitate flexible decision-making within clubs (or in allied institutions) in order to make them adaptable and effective.

International institutions as clubs

The IMF, World Bank and WTO generally conform to the predictions of club theory. Their memberships have expanded several-fold since they were founded and all have become more heterogeneous through the diverging interests of original members and the addition of new ones. Yet their governance structures and voting shares are relatively unchanged. Given the inflexibility of these institutions, alternative organizations have begun to develop around them.

⁹ It has been argued, for example, that the APEC grouping was formed preemptively to prevent the development of a narrower East Asian economic grouping proposed by some Asian countries at the time.

Regional development banks have been created in Latin America, Asia, Africa and Europe. The various “G forums” cover some of the turf of IEs as well as provide oversight for them.

Regional forums, like the EU, ASEAN and East Asia Summit, focus on common issues among closely interdependent countries. And some functions, including financial supervision, are being addressed with new institutions, such as the new Financial Stability Board. These alternative organizations are attractive because they are (for now) smaller and more homogeneous.

Macroeconomic stability

The International Monetary Fund, originally charged with maintaining stability in a fixed exchange rate system, has become a more general agency for maintaining global macroeconomic stability. With rising international capital mobility, its work has shifted to short-term lending to countries with liquidity problems, usually as result of balance of payments crises caused by capital outflows. The widespread failure of financial systems in advanced economies in the current global crisis is likely to transform, or at least expand, the IMF’s mandate once again.

The IMF addresses its mission with surveillance, lending, and technical support¹⁰. Surveillance involves monitoring economic and financial developments and offering policy advice in order to prevent or manage crises. The results of global surveillance are published in the World Economic Outlook (WEO) and Global Financial Stability Report (GFSR). Bilateral surveillance involves annual consultations with member authorities based on Article IV.¹¹ Its results are reported to in “Public Information Notices.”¹² Recently the IMF has begun to publish Regional Economic Outlooks focusing on major regions of the world, as part of its regional surveillance efforts. The IMF also provides technical assistance to help countries analyze issues and build capacity in macroeconomic and financial policy.

Until recently, IMF lending was accompanied by rigorous policy conditions on borrowing countries. These loans, made under Stand-By Agreements (SBAs) lasting for one to two years, were dispersed as borrowers met criteria on monetary, fiscal and structural targets. The SBAs

¹⁰ <http://www.imf.org/external/work.htm>

¹¹ IMF, “Decision on Bilateral Surveillance over Members’ Policies,” <http://www.imf.org/external/np/sec/pn/2007/pn0769.htm#decision>

¹² In this relatively new effort to increase transparency, the IMF needs the consent of the member country to publish the notice. Most countries have been giving their consents.

were backed up in 1997 with a Supplemental Reserve Facility (SRF) and other facilities designed to provide larger loans with shorter maturities to countries facing a capital account crisis and/or unusual shocks.¹³ In the 2008 crisis the IMF pushed the envelope a step further: a new Short-term Liquidity Facility (SLF) was introduced to offer quick, large-scale financing without explicit conditionality. But even the SLF proved ineffective and in March 2009 was superseded by a Flexible Credit Line (FCL) facility, which assured pre-qualified countries of large, flexible, upfront access to resources without ex-post conditions.¹⁴ The SLF and FCL are major departures for the IMF: they offer condition-free loans based on ex-ante qualification criteria.

The new facilities of 2008-2009 respond to a long-simmering fault line in the IMF. In the Fund's early years, many members were expected to be both contributors and borrowers, but over time sharp distinctions emerged. Advanced economies that control a majority of IMF shares are now almost exclusively contributors and view the IMF as a guardian of systemic stability (or less charitably, a guarantor of investments) and a manager of the moral hazard associated with emergency lending. Borrowers, in turn, are middle- or low-income countries with little voting power that depend on the IMF as a financial backstop in crisis.¹⁵ This division sharpened in the Asian crisis and many potential borrowers—particularly those in East Asia—became unwilling to seek assistance from the IMF. In response to the global crisis of 2008, the IMF's resources were expanded and some borrowing reemerged. This has further intensified the pressure on the IMF to make its facilities more attractive.

These tensions reflect in part the sluggish adjustment of IMF governance. Its highest decision-making body is the Board of Governors,¹⁶ comprising one governor and one alternate appointed by constituencies which comprise one or more countries. This Board is advised by two

¹³ Other IMF facilities address balance-of-payments problems due to special causes such as structural problems, natural disasters, military conflicts, trade liberalization, and exogenous shocks. Poverty reduction is not an explicit IMF objective, but the IMF can offer concessional interest rates to low-income countries under the Poverty Reduction and Growth Facility.

¹⁴ The FCL allows longer repayment periods (3¼ to 5 years) and imposes no hard cap on access to IMF resources, which will be assessed on a case-by-case basis (the SLF limited access to 500 percent of quota), and introduces flexibility to draw at any time on the credit line so that it can be used as a precautionary instrument (which was not allowed under the SLF). A similar facility, called the Contingent Credit Line (CCL), had been created in 1999 but was never used and hence allowed to cease in 2003 due the lack of interest among potential borrower members.

¹⁵ For example, Joyce and Sandler (2008) list the IMF's key functions as offering technical assistance, facilitating currency convertibility, providing a commitment device for policies, and creating insurance for correcting balance of payments problems without resorting to more costly measures.

¹⁶ For the current IMF organization chart, see: <http://www.imf.org/external/np/obp/orgcht.htm>

ministerial committees. The International Monetary and Financial Committee (IMFC) consists of 24 governors and meets twice a year to provide council on international monetary and financial issues, on amendments to the Articles of Agreement, and on systemic disturbances. Its communiqués guide the IMF's work program for the following six months. The Development Committee, with a composition similar to that of the IMFC, also meets twice each year, and advises the IMF and the World Bank on development, trade and environmental issues.¹⁷

The IMF's day-to-day decisions are handled by an Executive Board, to which the Board of Governors has delegated most of its powers.¹⁸ The Executive Board consists of 24 Executive Directors, of whom 5 are appointed by countries with large quotas and 19 are elected by groups of countries.¹⁹ It selects the managing director and oversees the IMF's operations. The managing director has been traditionally European, but in 2009 the G20 agreed to a merit-based selection process.

The voting powers of individual countries depend on quotas, which also determine financial commitments and ability to borrow.²⁰ Quotas are negotiated when a country enters the IMF and depend on variables such as GDP, international reserves, current payments, current receipts and the variability of the receipts.²¹ Members are allocated 250 basic votes plus one vote for each SDR 100,000 of quota.²² Quotas have been increased several times (see Table 1) while basic votes have remained constant, increasing the voting shares of larger countries. Many decisions require simple majorities, but major decisions, including the amendment of the Articles of Agreement, require an 85 percent majority.²³

¹⁷ <http://www.imf.org/external/np/exr/facts/groups.htm#IC>

¹⁸ The Board of Governors retains ultimate powers, including the election or appointment of Executive Directors, approving resolutions on the admittance of new members and the terms and conditions of their membership, the compulsory withdrawal of members, increases in IMF quotas, and amendments of the Articles of Agreement. It is also the ultimate arbiter on issues related to the interpretation of the Articles.

¹⁹ The U.S., Japan, China, Saudi Arabia and the Russian Federation are single-country constituencies.

²⁰ Under Stand-By and Extended Arrangements, a member can borrow up to 100 percent of its quota annually and 300 percent cumulatively, although it may have access to more funds under special circumstances.

²¹ See: <http://www.imf.org/external/np/pp/2007/eng/071107.pdf> for discussion of the quota formulae and the data used to implement the quota formulae.

²² <http://www.imf.org/external/np/sec/memdir/members.htm>

²³ In addition to 85 percent majority, 60 positive votes are required.

Table 1. IMF Quota Expansions

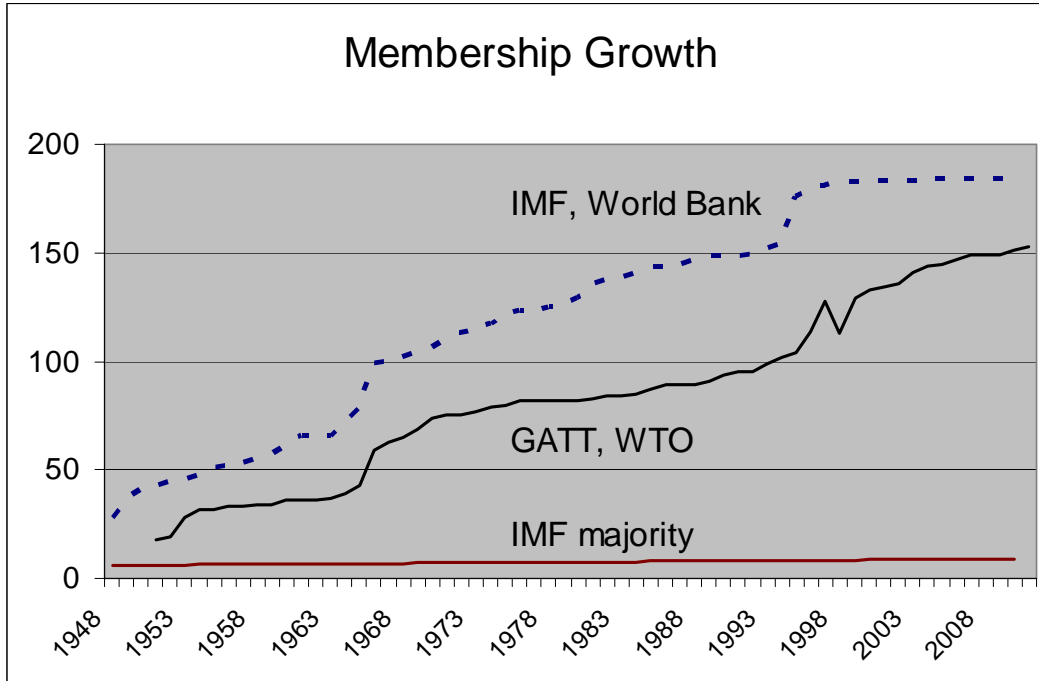
Quota Review	Date	Increase (%)
First Quinquennial	1950	---
Second Quinquennial	1955	---
1958/59	February and April 1959	60.7
Third Quinquennial	1960	---
Fourth Quinquennial	March 1965	30.7
Fifth General	February 1970	35.4
Sixth General	March 1976	33.6
Seventh General	December 1978	50.9
Eighth General	March 1983	47.5
Ninth General	June 1990	50
Tenth General	1995	---
Eleventh General	January 1998	45
Twelfth General	2005	---
Thirteenth General	2008	---

Source: www.imf.org

As a result, IMF decisions are controlled by a small number of countries, most of which were its original members. Quotas revisions have not kept pace with economic change.²⁴ As Figure 1 shows, only 9 of 185 countries controlled a majority of votes (sufficient for most decisions), up from only 3 at the launch of the the IMF in 1945. Now as then, the United States alone can veto a major decision that requires an 85 percent super-majority vote as its voting share is 17%.

²⁴ The IMF's Board of Governors conducts general quota reviews every five years. Any proposed change in quotas must be approved by an 85 percent majority.

Figure 1

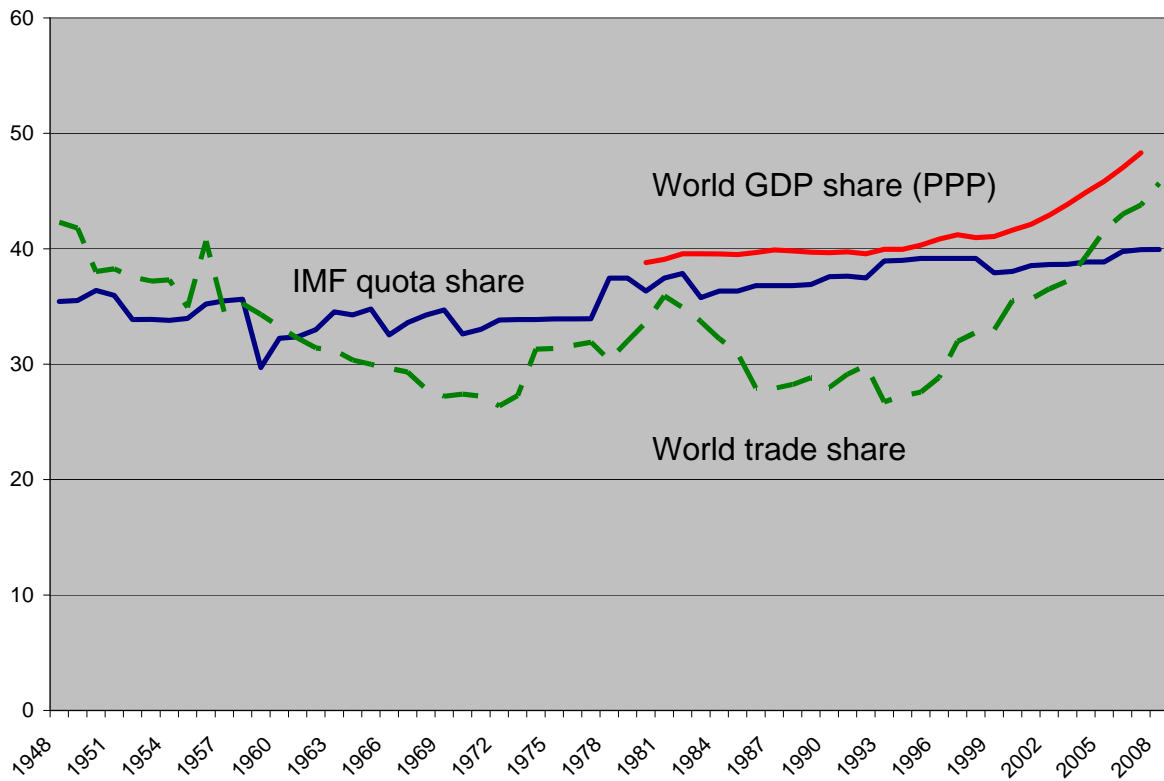


Source: www.wto.org

Voting shares today are especially low for rapidly growing emerging market countries such as Brazil, China and India. Kelkar et al. (2005) note, for example, that these three countries had 19 percent fewer votes than Belgium, Italy and the Netherlands collectively, although they had 21 percent more nominal GDP, 400 percent more purchasing power GDP, and 2800 percent more population than the second group.

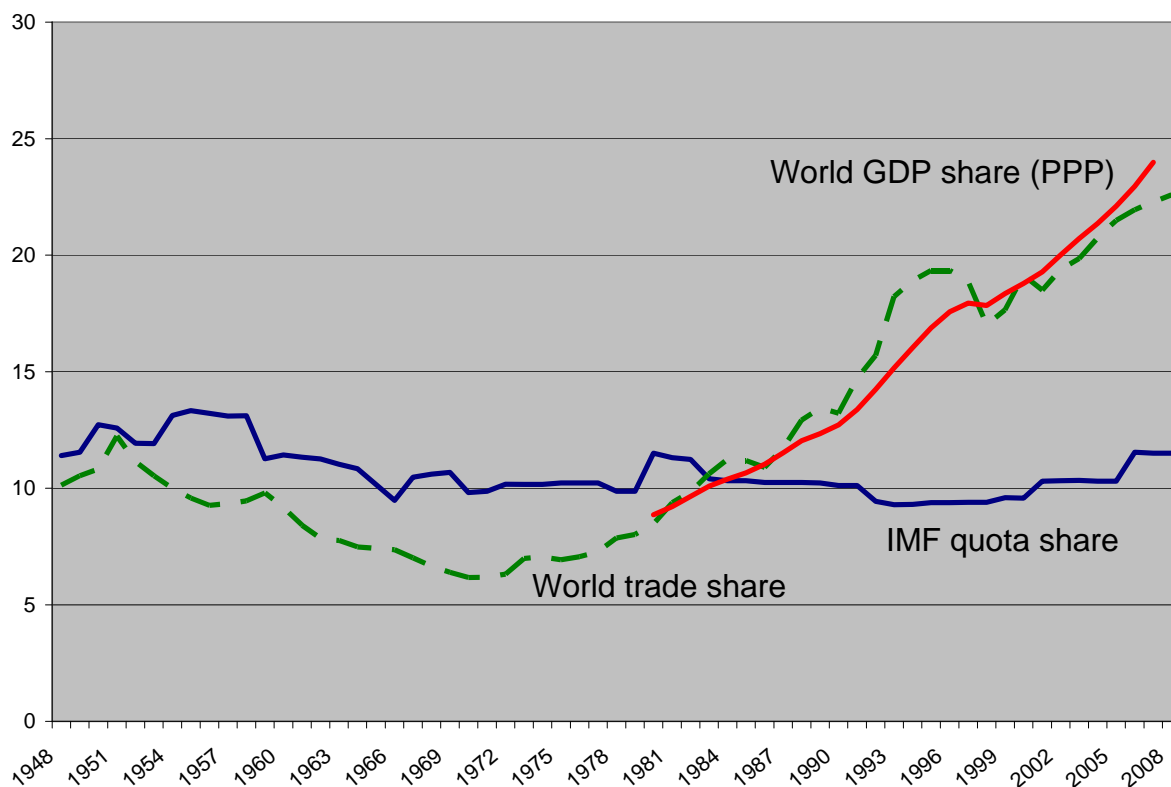
Figure 2 shows the evolution of the shares of developing and emerging economies in IMF quotas and in global trade and GDP (in terms of purchasing power), two rough indicators of their importance in the world economy. After an early period of decline (a period dominated by the acceleration of European growth), the trade share of developing and emerging economies has risen more rapidly than their share in IMF quotas. This contrast is even clearer for their share in world GDP. Figure 3 shows similar data for Asia's rapidly growing economies. The figure clearly suggests that their rising weight in the global economy has not been reflected in IMF quotas.

Figure 2. Developing and Emerging Economies' Shares in IMF Quotas and in World Trade and GDP



Source: Authors' calculations from IMF Financial Statistics.

Figure 3. Developing Asia's Shares in IMF Quotas and in World Trade and GDP



Source: Authors' calculations from IMF Financial Statistics.

Reform proposals have centered on changing the quota formulas (Cooper, 2000, Bryant 2008a, Kelkar et al., 2005). In April 2008 the IMF Board recommended increasing quotas for 54 members (mostly emerging-market countries),²⁵ tripling basic votes, fixing the ratio of basic votes to total votes in the future, and adding two more Alternate Directors for African countries. But the effect of these changes is modest: for example, while the combined voting share of China, India, Korea, Brazil and Mexico will rise from 8.2 percent to 10.7 percent, it will still lag their 11.9 percent share of world GDP.²⁶

Sub-global cooperation in macroeconomics is emerging in two ways. One path involves “variable geometry” within the IMF: in a sharp break with practice, in 2008 the IMF involved several stakeholders in designing and negotiating programs in Eastern European and Nordic

²⁵ See Bryant (2008a) for a discussion of the proposed quota formula.

²⁶ See Linn et al. (2008). Since these proposals are amendments to the Articles of Agreement, they will require legislative approval in several member countries.

countries Takagi (2009). These partners, including the European Central Bank, the European Union and Nordic countries, roughly matched the IMF's lending commitments. The full implications of this approach are unclear; they could represent special cases, reflecting Europe's dominant role in the IMF, or, if systematically applied, could offer a new model for building flexible partnerships for delivering broader services.

A second path involves cooperation outside the IMF. The European Central Bank, of course, has taken over managing key macroeconomic functions for the Eurozone countries. But in addition, several countries have provided liquidity support bilaterally (notably the U.S. to Mexico in 1994, and to Brazil, Korea, Mexico and Singapore in 2008). Finally, parallel multilateral institutions are also emerging. The most prominent is the Chiang Mai Initiative (CMI) encompassing bilateral swap agreements of \$84 billion among the ASEAN+3 countries. In recent meetings, these economies agreed to convert CMI into a multilateral, self-managed, reserve-pooling arrangement, called the CMIM,²⁷ to provide \$120 billion for the CMIM, and to establish a surveillance unit to monitor economic developments in participating countries. For now, a country must participate in an IMF program to draw on more than 20% of the facility, but the link could be relaxed once the surveillance unit gains experience and credibility.

Development finance

The World Bank Group supplies the global public good of development through low-cost loans and technical assistance to middle- and low-income countries. It comprises the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA) for assisting the poorest countries with interest-free, long-term loans,²⁸ the International Finance Corporation (IFC) for investing in private projects, and the Multilateral Investment Guarantee Agency (MIGA) for providing political risk insurance. The Bank's "investment operations" provide loans, market-based or concessionary, to sectors based on agreed outputs and performance targets. The Bank's "development policy operations" provide untied budget support for policy reform. The Bank also lends in the case of adverse developments²⁹ and,

²⁷ Chiang Mai Initiative Multilateralized. Under CMIM each country would manage its reserves independently, but an amount committed to the CMIM would be earmarked for CMIM use.

²⁸ These carry a small service charge of 0.75 percent on funds paid out.

²⁹ The Deferred Drawdown Option (DDO).

through Special Development Policy Loans (SDPL), for reforms to countries approaching or in crisis. Like the IMF, the World Bank provides technical support and drafts periodic Country Assistance Strategies (CAS) to identify the development challenges, especially as they affect poverty.

The World Bank's governance parallels that of the IMF. The Bank is owned by the same 185 countries and is run by a Board of Governors appointed by them (usually ministers of finance or development). The Board delegates many responsibilities to Executive Directors, who oversee policies, lending operations and the administrative budget, and appoint the President.³⁰ As in the IMF, the five largest shareholders each appoint an Executive Director and the other 180 members elect 19 Executive Directors. Voting shares are the same as in the IMF.

A decentralized decision structure is well established in development finance. The World Bank's work is paralleled by four regional development banks: the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, and the Inter-American Development Bank. These are further complemented by smaller sub-regional banks. The Meltzer Commission (Meltzer, 2000) envisioned an especially large role for these institutions—eventually handling all lending—but noted that their current activities often overlap with those of the World Bank. The 2009 London Summit committed to general capital increases in the regional banks, perhaps signaling a longer-term increase in their relative role in global development finance.

The ownership structure of the regional development banks includes global as well as regional members. For example, the ADB has 67 members, of which 48 are from the Asia and Pacific and 19 from other regions. Regional members contribute 63.4 percent of subscribed capital and have a 65 percent share of voting power. The largest regional member, Japan, contributes 15.6 percent of the capital and holds 12.75 percent of votes. The largest non-regional member, the U.S., has capital and voting shares equal to Japan's. Governance is similar to that of the IMF, with a Board of Governors delegating day-to-day responsibilities to a 12-person Board of

³⁰ see <http://go.worldbank.org/9Q8KOMQPE0> for more details and list of current members of the Executive Board.

Directors, of whom 2/3 are from the region. The President must be from the region and has always been Japanese.

Trade liberalization

The services provided by the WTO focus on facilitating global negotiations and monitoring the world trading system. The WTO's ongoing work program includes trade policy reviews to monitor compliance with WTO obligations and offering services for dispute settlement. Under the WTO and its predecessor, the GATT, eight rounds of international agreements were conducted. Each round has become longer and more complicated. While the early rounds were completed within one year, the fourth lasted two years, the fifth four years, and the sixth six years. The seventh and most recent completed, the Uruguay Round, took nine years to negotiate. The current Doha Development Agenda was launched in 2001 and is in a stalemate at this writing. Although the WTO Director General and participants often reaffirm their intent to conclude the round, the current global economic downturn is only likely to make progress more difficult.

The governance of the WTO is very different from those of the IMF and the World Bank. The WTO has no board or executive body. It is member-driven and consensus-based; decisions are facilitated by councils and committees. At different times, various smaller groups of countries have conducted negotiations in an effort to achieve breakthroughs that might be acceptable to a wider membership. The Ministerial Conference meets once every two years and makes decisions on multilateral trade agreements. Day-to-day work between meetings is managed by a small Secretariat which supports a General Council, the Dispute Settlement Body, and a Trade Policy Review Body.

At the same time, a sub-global framework for trade is rapidly emerging. Partly because of the stalemate in the Doha Round, bilateral and regional trade arrangements have grown exponentially (Asian Development Bank, 2008), and now include major agreements in Europe, North America, Latin America, the Gulf countries, and around ASEAN. Many countries participate in overlapping agreements and pursue regional and extra-regional agreements at the same time. Although these initiatives are theoretically subject to GATT Article XXIV (which requires the full liberalization of substantially all trade) they have been negotiated without any

WTO involvement. While analytical studies (Baldwin 2009) show large benefits from consolidating regional agreements into a coherent global system, at this writing there are no serious negotiations underway to connect regional arrangements.

Financial system stability

An important factor behind the global financial crisis is the lack of a global financial regulatory and supervisory framework. Such a system would regulate, monitor, and supervise the cross-border activities of systemically important financial institutions, as well as instruments and markets that affect systemic stability. No such system currently exists. The Financial Stability Forum (FSF), launched in 1999, has sought to encourage information exchange and international co-operation in financial supervision and surveillance, but has left regulatory functions to a division of labor between home and host authorities. Supervisory colleges have been set up to monitor and supervise the cross-border activities of large financial institutions, but their effectiveness remains untested, especially in the event of disagreements among regulators. A better global financial regulatory and supervisory system is needed to encompass the varied interests of a growing number of players and to address the challenges raised by systemically important financial institutions that operate in many jurisdictions. A partially decentralized approach may provide a way to establish such a regime in light of large initial differences in regional financial systems.

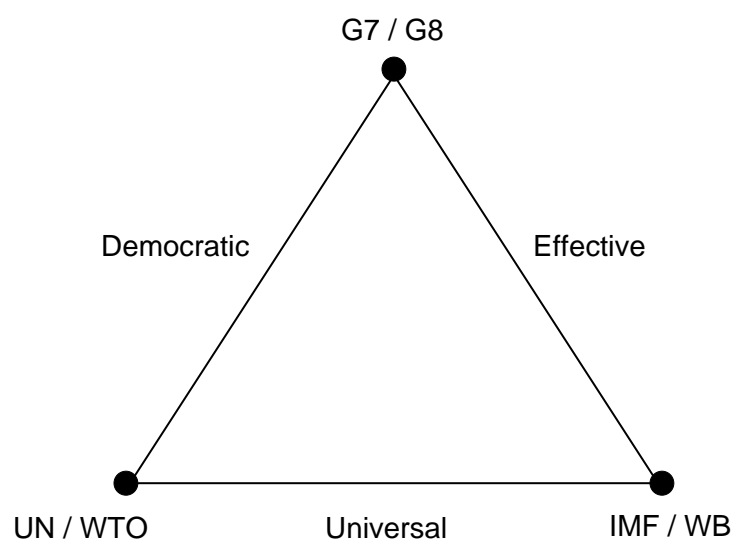
Governance reform of international economic institutions

The governance trilemma

There is broad agreement that IEs need to become (a) more democratic, (b) more effective in delivering the public goods expected from them and, for political reasons, (c) universal by accepting all countries that take on reasonable obligations of membership. Unfortunately these requirements add up to a “trilemma:” achieving any one makes achieving the others more difficult. Major international institutions have succeeded in being at times democratic (responsive to individual members), effective (able to act and adapt) and universal (globally inclusive), but none are generally all three at the same time.

The trilemma is illustrated in Figure 4. The triangle corner of institutions that are both universal and democratic is populated by several global institutions, including the WTO and United Nations. These institutions typically fall short on the scale of effectiveness—they have difficulty making and implementing decisions. The corner of democratic and effective institutions is exemplified by institutions such as the G7/G8, but these fail on the measure of universality.³¹ And the corner of universal and effective institutions is illustrated by the IMF and the World Bank, which can act quickly and decisively, as they did for example in the 1997/8 crisis, but do not use open, democratic processes to arrive at decisions.

Figure 4. The Governance Trilemma



The tensions captured in the governance trilemma have led to underinvestment in international organizations and a shortage in international public goods. The resources of IEIs have become small compared to those routinely available to governments for financial interventions and to private institutions for speculative investments. (The scale of the new commitments made at the 2009 London Summit is one indicator of this shortfall.) IEIs have also become less responsive to their members—to developing countries in delivering policies on technology transfer and international investment, and to advanced countries in addressing environment, labor and human

³¹ Keohane and Nye (2000) suggest that within universal institutions small clubs typically emerge in order to promote and control the institution's policies. For such groups to be effective, they have to undermine the institution's democratic process.

rights issues. Over time, the number of international institutions has grown and each has expanded substantially, but the global benefits derived from these institutions have arguably diminished.

Institutional families as a solution

Are there ways to make international economic governance at once universal, democratic and flexible, that is, to resolve the trilemma of Figure 4? We explore one possible solution, that of replacing monolithic IEIs with multi-layered decisions. The architecture might consist of “institutional families” in which global IEIs act as central institutions that coordinate related, but relatively independent decision-making bodies. This is akin to the concept of “functional federalism” advocated on a national level and in Europe to improve flexibility in the provision of public goods (Casella and Frey, 1992).

In the language of club theory, this innovation would seek to reinvigorate competition among smaller clubs to supply services that are not supplied by large ones. These new clubs should be more fluid than the existing ones; for example, entry and exit could be encouraged by a framework that specifically supports limited cooperative arrangements within existing clubs. The new clubs could target new users or subsets of members of old clubs. The key point is that they would produce services that differ from those demanded by the members that dominate decision-making of existing IEIs. Will global institutions agree to such innovations? They may, provided that they see significant threats from continued rigidity (as the IMF did in 2008) and benefits from adjustment. Organizations that deliver public goods (and in particular their leaders and staff) typically benefit from their production by gaining funding and influence.

One approach is to create mechanisms within established IEIs to enable coalitions to reach agreements on special policy needs. An example is offered by the IMF’s General Agreements to Borrow and New Agreements to Borrow to create a platform by willing richer members to provide additional financial resources for countries in need. Another example is found in the OECD’s efforts by willing countries at formulating policies on various issues, ranging from trade credit to investment. A further example is provided by “trust funds” established by groups of countries within the World Bank and regional development banks. These agreements would be

subject to rules that ensure the consistency of initiatives with the IEI's overall objectives and operations. But the projects themselves would be designed, managed and funded by a coalition, perhaps with agreed co-financing from a central facility established for that purpose.

A second approach is to create independent institutions linked to parent IEIs by rules and procedures that ensure global consistency. An example close to such an approach can be found in development finance, where the World Bank acts as a global development bank and IDB, ADB, AfDB and EBRD act as regional development banks. Although there are no set rules to ensure consistency among these institutions at least now, the overlapping shareholder governments can play the role of ensuring global consistency. Another example of such a rule is GATT Article XXIV, which establishes conditions for regional trade agreements. But in practice the WTO has not attempted to build a community of trade agreements using Article XXIV; it has been almost entirely preoccupied with promoting and managing global agreements and negotiations, and has not supported, or even monitored, FTA negotiations. A more coherent system would require a balanced approach toward the sub-global and global tracks, and stronger links between them.

Institutional designs that integrate global and sub-global decision making can enhance the provision of public services in at least three different ways. First, institutional families can share infrastructure and administrative functions such as human and financial resources, lending, contracting, research, evaluation and so on. The financial track record of an institutional family will also help in accessing capital markets, if needed. Second, institutional families can facilitate new initiatives by reducing the commitment and cost involved in undertaking them—in other words, by facilitating entry in and exit from new areas of operation. New initiatives can start quickly by building on the infrastructure of an existing organization, and old ones can disappear by transferring excess resources to other, continuing functions. Finally, institutional families can improve the coherence of the various services offered by smaller groups by adopting mechanisms that minimize inconsistencies and duplication.

Applications and proposals

The global decision-making framework we envision would consist of global and sub-global institutions and principles that define the division of labor between them. This framework is illustrated in Table 2 for the four functional areas considered in this study.

Table 2. Institutional Families in Global Economic Governance

Function	Global Institutions	Sub-global Examples
Macroeconomic cooperation	IMF <i>Surveillance, systemic stability, crisis lending</i>	Chiang Mai Initiative Multilateralized <i>Regional surveillance, stability, crisis lending, moral hazard</i>
Development finance	World Bank <i>Global public goods: poverty, environment</i>	Regional Banks <i>Open regional priorities, infrastructure</i>
Trade liberalization	WTO <i>Global disciplines, dispute resolution, Article XXIV</i>	RTAs <i>Deeper, wider agreements</i>
Financial system stability	Financial Stability Board <i>Global standards, colleges of regulators</i>	Asian Financial Stability Dialogue <i>Region-specific regulatory initiatives</i>

Since some institutions already exists in most cells of Table 2, we call attention to existing institutions that might be strengthened as well as new ones to be developed. The goal is a framework that supports decentralization and links sub-global decisions with global ones.

IMF family

The role of the IMF in the context of the current global financial crisis makes reform especially urgent. As noted, this requires not only changes in the voting shares and management of the IMF, but also initiatives to resolve its deeper structural tensions. In 2009, for example, the IMF faces large demands for risky lending in Eastern Europe and the Baltic States, due to the region's

indebtedness to foreign banks (mostly from Western Europe), while the emerging economies of East Asia have strong reserve positions and are generally reluctant to turn to the IMF for support.

The geographical tensions faced by the IMF reflect in part differential patterns of economic linkages. If regional macroeconomic or financial spillovers are intense relative to global ones, regions will have a large stake in resolving them. In these cases, regional institutions or facilities can be effective "first responders," offering more timely interventions and greater accountability. Global interventions may be also necessary for global insurance. But these could be a second layer of response, complementing regional interventions.

A decentralized strategy can also minimize the possibility (and frequent charge) that the IMF will react too slowly in a crisis because it represents the interests of other regions or because it is trying to contain moral hazard elsewhere. Regional interventions could rely on the region's ability to gather information and contain moral hazard with minimum conditionality. They would also create incentives for policy makers to assume greater responsibility for anticipating and averting cross-border risks within their regions.

Recent IMF innovations to involve outside stakeholders represent a sharp departure from earlier practice, where major lending decisions were made by the IMF alone, even when the World Bank was involved in parallel operations. Similarly, the Multilateral Chiang Mai Initiative (CMIM) represents an important "bottom up" initiative toward decentralization. The CMIM is an important experiment in the ability of regions to enhance stability while making interventions more palatable and effective.

Further decentralization could be achieved by:

- Institutionalizing the involvement of co-lenders in IMF programs. Such arrangements could be subject to limits (say, each participating stakeholder would have to commit to financing at least 20% of a loan) as well as usual board approvals. But they should be designed to encourage cooperation between the IMF and other stakeholders, including especially regional partners such as the ECB and the CMIM.

- Strengthening regional institutions that can underwrite macroeconomic stability as “first responders,” including especially the CMIM, and welcoming them into the institutional framework of IMF support.
- Expanding cooperation between the IMF and other institutions in surveillance. The oversight of government policies, especially of influential members, is difficult for any official organization. This is an important reason for sharing the information they collect with official agencies such as the European Central Bank, ASEAN and the CMIM, and with the private sector. Differences in interpretation can then provide checks on analytical outputs.

Ideally, such a system would bring greater resources to the task of maintaining international macroeconomic stability, as well as provide more ways for collecting information and for organizing responses to crises that occur in different parts of the world.

World Bank family

The challenge in development finance is to develop a flexible and coherent division of labor and appropriate connections among existing organizations. The Meltzer Report (2000) notwithstanding, there is a rationale for a global development lending facility. Some types of development finance address explicitly global goals (in particular, global externalities and other global priorities) which would not be adequately financed or prioritized by regional institutions. These ought to be handled by the World Bank. But that leaves many other types of lending that could be more efficiently administered regionally, as the Meltzer Report (2000) argued.

The World Bank’s global mission would include lending for projects that address broad, global objectives, such as the Millennium Development Goals. It would also include lending to alleviate negative global externalities, such as climate change, global energy and food shortages and global epidemics. And the World Bank would also remain the logical site for activities with great

economies-of-scale, such as providing an administrative infrastructure for development finance and serving as a "knowledge bank" to collect and disseminate research findings.³²

Regional development banks are best positioned to address sub-global development challenges, particularly for the provision of regional public goods to be shared by countries with common interests. Their lending could benefit from a region's pooled knowledge, expertise and financial resources, complemented by global knowledge and expertise provided by the World Bank. An example includes investments for regional infrastructure or regional financial markets, which will require an institutional framework that permits a group of countries to join together to approve and manage activities. Regional development banks can function as a trusted facilitator to make this happen, with the World Bank invited as a co-financier or a knowledge partner as needed.

A coherent framework for such activities would provide opportunities for global and regional lenders to pursue different policies, while applying guidelines and rules that ensure common operational practices, encourage collaboration (for example on regional development projects that have poverty alleviating elements), and provide for frequent exchange of information and expertise, including personnel.

Further decentralization could be achieved by:

- Strengthening regional development banks by increasing their capital and permitting their missions to be set more independently by members and providing greater voice to regional members in managing regional institutions.
- Drawing sharper distinctions between the global objectives of the World Bank—with a focus on global public goods—and the more region-focused missions of regional development banks.

³² The Meltzer Report (2000) also envisioned limiting the World Bank's role to these intrinsically global public goods. However, that report saw little need for development finance beyond such public goods. In our view, such decisions should be left to groups of member countries. They could interpret public goods differently and may support projects, such as regional technology development, that would not be funded by a universal membership.

- Expanding the capabilities of the World Bank to support regional banks, for example, via research, infrastructure, and possibly co-lending for regional initiatives.

Ideally, this structure will enable the World Bank to act not only as a guardian of global public goods, but also a supporter of regional public goods provision through cooperation with regional development banks in augmenting regional knowledge, expertise and resources (say, through funds dedicated for co-lending for regional projects).

WTO family

Even if a successful outcome to the Doha Round is eventually achieved (at this writing, an unlikely outcome), global negotiations in the WTO are approaching limits. New rounds of negotiations are unlikely to be undertaken under the present system. At the same time, regional trade agreements continue to proliferate. As Baldwin (2006) has argued, there is much urgency in engaging the WTO in the regional arrangements that trade negotiations now increasingly follow.

Baldwin proposes reestablishing WTO control over the regional negotiations process. He suggests that the WTO (a) generate analysis on the process of regional agreements, (b) launch negotiations to consolidate regional agreements, and (c) provide a forum for the “spoke” countries of hub-and-spoke systems in order to encourage broader agreements.

These are important goals, but we argue that the WTO could go a step further, and play a direct role in the administration of regional agreements. Such a role would make it more relevant to the international trade system and help it gain greater influence in the development and administration of international agreements. Such interactions could begin between the WTO and major regional trading arrangements (such as ASEAN, EFTA and MERCOSUR) to directly address the challenge of aligning FTA practices with global rules. It would take innovative adjustments in the WTO and regional institutions to achieve collaboration. But there are important, symmetrical benefits from such cooperation: regional institutions could profit from the expertise, infrastructure and credibility of the WTO, while the WTO could advance the broad

interests of its membership by participating in the design and administration of regional initiatives.

Further decentralization could be achieved by:

- Establishing a new function within the WTO to support and integrate “limited trade liberalization,” e.g. agreements that cover limited sectors and countries. This function would support regional FTA negotiations and facilitate and monitor their implementation.
- Developing a realistic framework of rules for limited trade liberalization. This effort would expand and strengthen Article XXIV to permit a broader range of limited agreements, while ensuring that these avoid injuring non-members. Ideally, these rules will lead to new trade-creating agreements such as the 1996 Information Technology Agreement.
- Creating a framework to consolidate sectoral and regional agreements into global agreements.
- Encouraging regional groups to adopt multilateral-friendly approaches, including lower MFN tariffs, simple rules of origin (such as the 40% regional content rule adopted by ASEAN), and regular consultations with non-regional partners on trade and investment issues.

In the Asian context, these initiatives would target the consolidation of Asian trade agreements into a single Asia-wide FTA and the connection of the resulting FTA with NAFTA, EU, MERCOSUR, and other regional agreements.³³ Through such initiatives, the WTO family would support new liberalization initiatives along with stronger efforts to streamline and consolidate past agreements that were negotiated independently from each other.

FSB family

The global financial crisis has highlighted the lack of an international framework for monitoring, regulating and supervising the cross-border activities of systemically important financial firm

³³ See Kawai and Wignaraja (2009).

The new Financial Stability Board (FSB)—a successor to the Financial Stability Forum—established by the 2009 London Summit is intended to create such an institutional framework.³⁴ The FSB has been charged with assessing the vulnerabilities affecting the global financial system, identifying and overseeing actions needed to address these, and promoting coordination and information exchange among authorities responsible for financial stability. In collaboration with the IMF, it is also charged with providing early warning of macroeconomic and financial risks and proposing actions to remedy them.

The effectiveness of the FSB will ultimately depend on the quality of supervision and regulation in national and regional financial systems. In the US, for example, new steps will be required to consolidate what is still a highly fragmented regulatory and supervisory system.³⁵ In Europe too a new, EU-wide supervisory framework will be needed. More generally, since the FSB includes a limited number of economies, its work will need to be extended across many other countries through parallel regional efforts.

A partially decentralized architecture for the FSB could be developed by organizing regional forums such as the Asian Financial Stability Dialogue (AFSD) around the FSB, as proposed by the Asian Development Bank (2008). Such institutions could play valuable roles by translating FSB initiatives into a regional context and then helping to implement them. They could also help to collect regional inputs for the FSB process and, more fundamentally, orchestrate efforts to integrate and deepen regional financial markets.

Conclusions

Club theory provides a framework for examining the challenges of global cooperation. It suggests, in particular, that while clubs present effective solutions to problems common to reasonably homogeneous members, they become inflexible and ineffective as their membership grows large and diverse. As currently structured, the IEIs conform to these predictions and are not meeting the public goods requirements of the world economy.

³⁴ Membership of the FSB has been expanded to include all G20 members and a few others.

³⁵ The U.S. has fragmented supervisory systems for commercial banks, a weak supervisory framework for investment banks, and state-by-state regulation for insurance companies.

Partially decentralized decision making offers a promising solution. The concept of institutional families—global institutions built from regional or otherwise differentiated building blocks—offers a way for putting decentralization into practice. Under such a system, decisions would be made by different groups of countries, but would be governed by common rules and standards and would benefit from a shared infrastructure. Such “federalism” has served governments well in other contexts and has begun to emerge also in the existing framework of international organizations.

Crisis stimulates innovation. The opportunity created by the current crisis should be used not merely to change the “chairs and shares” of existing institutions, but also to make them more flexible once and for all. The newly emerging arrangements for global financial stability may also build on such principles. Institutional reform needs to look beyond the causes of the present crisis since it is impossible to predict those of the next one. New, unanticipated challenges will inevitably come, and partial decentralization offers a tool for coping with them in real time.

References

Asian Development Bank. 2008. *Emerging Asian Regionalism: A Partnership for Shared Prosperity*. Manila: Asian Development Bank.

Baldwin, Richard E. 2006. "Multilateralising Regionalism: Spaghetti Bowls as Building Blocs on the Path to Global Free Trade" Working Paper No. W12545. Cambridge: National Bureau of Economic Research.

Bryant, Ralph C. 2008a. "Reform of Quota and Voting Shares in the International Monetary Fund: "Nothing" is Temporarily Preferable to an Inadequate "Something", Washington: Brookings Institution.

-----, 2008b. "Reform of IMF Quota and Voting Shares: A Missed Opportunity," Washington: Brookings Institution.

Buchanan, J.M. 1965. "An Economic Theory of Clubs." *Economica*, 32, 1-14.

Casella, Alessandra and Bruno Frey, 1992. "Federalism and clubs: towards an economic theory of overlapping jurisdictions," *European Economic Review*, 36, 639-646.

Commission on Global Governance, *Our Global Neighborhood*. Oxford: Oxford University Press, 1995.

Cooper, Richard N. 2000, Report to the IMF Executive Board on the Quota Formula Review Group, Washington: International Monetary Fund.

Cooper, Richard N. and Edwin M. Truman, 2007. *The IMF Quota Formula: Linchpin of Fund Reform*, Policy Brief 07-01. Washington: Peterson Institute for International Economics.

Dervis, Kemal and C. Ozer, 2005. *A better globalization: legitimacy, governance, and reform*. Washington: Center for Global Development.

Fратиanni, Michele and John Pattison, 1982. "The Economics of International Organizations." *Kyklos*, 35:2, 244-262.

-----, 2001. "International Organizations in a World of Regional Trade Agreements: Lessons from Club Theory." *World Economy*, 2:4, 333-58.

Joyce, Joseph P. and Todd Sandler, 2008. "IMF Retrospective and Prospective: A Public Goods Viewpoint" *Review of International Organizations*. September.

Kahler, Miles and David A. Lake. 2003a. "Globalization and Governance," in Miles Kahler and David A. Lake, editors, *Governance in a Global Economy: Political Authority in Transition*. Princeton: Princeton University Press: 1-30.

Kawai, Masahiro and Ganeshan Wignaraja, (2008). "Asian FTAs: Trends and Challenges", Mimeographed (June), Tokyo: Asian Development Bank Institute.

Kelkar, Vijay L., Praveen K. Chaudhry, Marta Vanduzer-Snow and V. Bhaskar, 2005. *The International Monetary Fund: Integration and Democratization in the 21st Century*, G24 XX Technical Group Meeting, Manila, Philippines March 17-18.

Keohane, Robert O. and Joseph S. Nye, 2003. "Redefining Accountability for Global Governance," in Miles Kahler and David A. Lake, editors, *Governance in a Global Economy: Political Authority in Transition*. Princeton: Princeton University Press, pp. 386-411.

Kindleberger, Charles. 1976. "Systems of International Organization," in D. Calleo, ed. *Money and the Coming World Order*, New York: Lehrman Institute.

International Monetary Fund, 2008. *Governance of the IMF: An Evaluation*. Washington: IMF.

-----, 2008b. "Aspects of IMF Corporate Governance—Including the Role of the Executive Board." Washington: IMF Independent Evaluation Office. Processed. April 2008.

Lawrence, Robert Z. 2008. "International Organizations, The Challenge of Aligning Mission, Means and Legitimacy," *World Economy*, Vol. 31, Issue 11, pp. 1455-1470, November.

Linn, Johannes F., Ralph C. Bryant and Colin I Bradford, 2008. "Experts Critique Proposal for International Monetary Fund Quota Reform," Washington: Brookings Institution.

Meltzer, Allan. 2000. *Report of the International Financial Institutions Advisory Commission*. Washington: U.S. House of Representatives.

Olson, M. and R. Zeckhauser. 1966. "An Economic Theory of Alliances." *Review of Economics and Statistics*, 48, 266-279.

Ruggie, J.G., 1972. "Collective Goods and Future International Collaboration." *American Political Science Review*, 66, 874-893.

Sandler, Todd and John T. Tschirhart, 1980. "The Economic Theory of Clubs: An Evaluative Survey," *Journal of Economic Literature*, 18, 1481-1521. December.

Takagi, Shinji, 2009. "Applying the Lessons of Asia: The IMF's Crisis Management Strategy in 2008." Processed. Osaka: Osaka University. Processed. February 2009.

Tiebout, C., 1956. "A Pure Theory of Local Expenditures," *Journal of Political Economy*, 64:5, 416-424.

Truman, Edwin M., 2006. *Reforming the IMF for the 21st Century*. Washington: Peterson Institute for International Economics.

-----, 2008. "On What Terms is the IMF Worth Funding?" Working Paper 08-11. Washington: Peterson Institute for International Economics.

Zedillo, Ernesto, Chairman. *High-level International Intergovernmental Consideration of Financing for Development*, June 26, 2001, New York: United Nations.

Annex. IMF Votes as of April 2008

United States	371,743	Israel	9,532
Japan	133,378	New Zealand	9,196
Germany	130,332	Philippines	9,049
France	107,635	Portugal	8,924
United Kingdom	107,635	Singapore	8,875
China	81,151	Chile	8,811
Italy	70,805	Ireland	8,634
Saudi Arabia	70,105	Greece	8,480
Canada	63,942	Czech Republic	8,443
Russian Federation	59,704	Colombia	7,990
Netherlands	51,874	Bulgaria	6,652
Belgium	46,302	Peru	6,634
India	41,832	United Arab Emirates	6,367
Switzerland	34,835	Morocco	6,132
Australia	32,614	Bangladesh	5,583
Mexico	31,778	Congo	5,580
Spain	30,739	Zambia	5,141
Brazil	30,611	Republic of Serbia	4,927
Korea	29,523	Sri Lanka	4,384
Venezuela	26,841	Belarus	4,114
Sweden	24,205	Ghana	3,940
Argentina	21,421	Kazakhstan	3,907
Indonesia	21,043	Croatia	3,901
Austria	18,973	Slovak Republic	3,825
South Africa	18,935	Trinidad and Tobago	3,606
Nigeria	17,782	Vietnam	3,541
Norway	16,967	Côte d'Ivoire	3,502
Denmark	16,678	Uruguay	3,315
Iran	15,222	Ecuador	3,273
Malaysia	15,116	Syrian Arab Republic	3,186
Kuwait	14,061	Tunisia	3,115
Ukraine	13,970	Angola	3,113
Poland	13,940	Luxembourg	3,041
Finland	12,888	Uzbekistan	3,006
Algeria	12,797	Jamaica	2,985
Turkey	12,163	Kenya	2,964
Iraq	12,134	Qatar	2,888
Libya	11,487	Myanmar	2,834
Thailand	11,069	Yemen	2,685
Hungary	10,634	Slovenia	2,567
Pakistan	10,587	Dominican Republic	2,439
Romania	10,552	Brunei Darussalam	2,402
Egypt	9,687	Guatemala	2,352

Panama	2,316	Rwanda	1,051
Lebanon	2,280	Burundi	1,020
Tanzania	2,239	Turkmenistan	1,002
Oman	2,190	Togo	984
Cameroon	2,107	Nepal	963
Uganda	2,055	Fiji	953
Bolivia	1,965	Malawi	944
El Salvador	1,963	Macedonia	939
Jordan	1,955	Barbados	925
Sudan	1,947	Niger	908
Bosnia and Herzegovina	1,941	Estonia	902
Costa Rica	1,891	Botswana	880
Afghanistan	1,869	Benin	869
Senegal	1,868	Burkina Faso	852
Azerbaijan	1,859	Chad	810
Gabon	1,793	Central African Rep.	807
Georgia	1,753	Lao PDR	779
Lithuania	1,692	Mongolia	761
Cyprus	1,646	Swaziland	757
Namibia	1,615	Albania	737
Bahrain	1,600	Lesotho	599
Ethiopia	1,587	Equatorial Guinea	576
Papua New Guinea	1,566	Gambia	561
Bahamas, The	1,553	Montenegro	525
Nicaragua	1,550	Belize	438
Honduras	1,545	San Marino	420
Liberia	1,542	Vanuatu	420
Latvia	1,518	Eritrea	409
Moldova	1,482	Djibouti	409
Madagascar	1,472	St. Lucia	403
Iceland	1,426	Guinea-Bissau	392
Mozambique	1,386	Antigua and Barbuda	385
Guinea	1,321	Grenada	367
Sierra Leone	1,287	Samoa	366
Malta	1,270	Solomon Islands	354
Mauritius	1,266	Cape Verde	346
Paraguay	1,249	St. Kitts and Nevis	339
Mali	1,183	Comoros	339
Suriname	1,171	Seychelles	338
Armenia	1,170	St. Vincent, Grenadines	333
Guyana	1,159	Timor-Leste	332
Kyrgyz Republic	1,138	Dominica	332
Cambodia	1,125	Maldives	332
Tajikistan	1,120	São Tomé and Príncipe	324
Congo	1,096	Tonga	319
Haiti	1,069	Bhutan	313

Kiribati	306
Micronesia	301
Marshall Islands	285
Palau	281