Bounded Reform in Global Economic Governance at the International Monetary Fund and the World Bank

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The International Monetary Fund and the World Bank Group—hereafter the Fund and Bank—were created at the end of World War II as the foundations of the new economic and monetary order known as the Bretton Woods regime. The Fund was tasked to monitor exchange rates and lend reserve currencies to nations with balance-of-payments deficits, while the Bank was assigned responsibility for providing financial assistance for the postwar reconstruction and the economic development of less developed countries. The design of the two Bretton Woods organizations reflected the political compromises between the Western countries that were about to win the war when the Bretton Woods conference was convened. The influence exerted by the then leading countries is evident in the missions mandated to the Bretton Woods institutions. Their governance structure similarly reflects the distribution of political and economic power of the 1940s. Indeed, as examined at greater length in the following section, dominant countries were able to design the voice and vote systems of the Bretton Woods sister institutions in a way that over the past seventy years has locked in power asymmetries that strongly benefit its creators.

However, the evolution of the global economy created what Paul Pierson (2004) calls “gaps” in the life of an institution: over time, the original designs of the Fund and the Bank have fallen short of satisfying the preferences of its expanding number of member states under a changed distribution of economic power in the global economy. As an increasing number of developing countries joined the organizations and advanced economies’ share of global gross domestic product (GDP) has declined, the rationale behind an institutional set up that
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favors the major industrial countries has largely lost its raison d’être (Birdsall and Subramanian 2007; Moschella and Weaver 2014). As a result, the Fund and Bank have been visibly struggling with tripartite crises of relevance, effectiveness, and legitimacy.

The Fund and the Bank have tried to maintain political support in light of the profound changes that have taken place in the global economy both by adapting their original mission and by initiating reforms to strengthen the voice and vote of its underrepresented members (Lamdany and Martinez-Diaz 2009). Governance reform efforts intensified on the heels of the 2008 global financial crisis, when a number of reform proposals were tabled and discussed with the aim of granting more voice and votes to developing and emerging market economies (Lombardi 2009; Committee on IMF Governance Report 2009). In spite of this reformist impulse, however, the post-2008 changes to the governance of the two Bretton Woods institutions have largely fallen short of expectations of rebalancing the representation and influence of the organizations’ poorer members.

This chapter investigates the puzzle of bounded governance reforms at the Fund and the Bank by using the toolkit of historical institutionalism (HI) to shed light on both the process and the outcome of change that have unfolded since 2008. Specifically, we ask why governance changes were initiated in the first place, in spite of the powerful status quo forces that characterize the workings of both institutions, and why these changes have only marginally reflected shifts in the global balance of power and the marketplace for Fund and Bank services.

In answering these questions, our analysis builds on one of the core insights of HI, which conceives of institutions as “the legacy of concrete historical processes” (Thelen 1999, 382). In embracing this view, HI pushes temporality and sequencing to the center of the analysis (Fioretos, Chapter 1, this volume) and invites attention to how apparently stable patterns of power distribution within organizations become susceptible to demands for change as institutions and political and socio-economic contexts evolve. In the case under investigation, for instance, the evolution of the global economic architecture and the 2008 global financial crisis brought new actors, such as the Group of 20 (G20) and the G20 Leaders, into the political landscape providing those disadvantaged by the governance status quo in the Fund and Bank with a new institutional venue on which to demand change (Farrell and Newman 2015, 499–505; Posner 2009).

While building on some of the key insights of HI, our analysis also borrows from the insights of sociological institutionalism (SI) to account for the process of change in the Fund and the Bank. The chapter argues and illustrates that mobilization in favor of governance changes was motivated and supported by a largely shared understanding among developed and developing
member states alike connecting governance reforms to legitimacy and efficiency considerations. This shared understanding was nurtured both within the G20 and inside the two organizations providing advocates of governance reforms with powerful weapons to question the maintenance of the status quo power at the Fund and the Bank. Seen from this perspective, it is misleading to read the start of the reform process as the automatic result of the shock of the global financial crisis, in line with a punctuated model of change (Baumgartner and Jones 1993; Hall 1993; Krasner 1984). The crisis did not fundamentally transform the preferences of the actors involved in the reform process but empowered those seeking change with new institutional venues and ideational resources to attain it.

In spite of the opportunity structure for change generated by the 2008 crisis, changing the Fund and Bank’s internal governance proved to be a daunting exercise. This had very much to do with the prevailing political context as well as the institutional rules shaping how reforms were adopted and implemented. The advocates of governance change operated within contexts characterized by strong veto possibilities, where some actors are vested with the institutional means for blocking change, most notably the US Congress. As a result, the outcome of reform processes at the Fund and Bank has largely disappointed expectations, as the governance reshuffle has not fundamentally altered the traditional balance of power within the two organizations.

Our central objective in this chapter is to shed light on the value-added of historical institutionalism in unpacking and explaining the shortfalls of reform at the Fund and Bank as they pertain to attempts to address “voice and vote” reforms. This is admittedly a narrow view of the broader governance reforms at both institutions, which also entail debates over leadership selection, staffing, core mandates, and organizational culture. Nonetheless, the voting systems of the Executive Board of Directors (EBD) are central to discussions of institutional accountability and representation, or the lack thereof, and thus merit specific focus in the analysis of organizational change in both institutions.

In the following section, we briefly describe the pre-existing governance structures of both the Fund and Bank, with emphasis on the historical roots of the weighted voting systems, how member states are represented (single versus constituent seats), and the means of calculating basic and shared votes. We then turn to the changing external environment, which over the past two decades has cumulated into strong pressure for revising the seventy-year-old governance system to reflect a global balance of power and task environment that are fundamentally different from those of 1944. The chapter proceeds by analyzing the factors that supported and hindered the proposals regarding voice and vote reforms that were initiated on the heels of the global financial crisis. We finally offer a critical review of the outcomes of the 2008
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and 2010 reforms, arguing that while many officials sought to depict the reforms as a critical break from the past, in reality the reforms have had far less impact in terms of enhancing the voice and influence of developing and transitional countries at the Fund and Bank.

Governance of the Fund and Bank

The Fund and Bank executive board governance structures are based upon weighted systems, in which member states’ representation and votes roughly equate to the economic size or relative position of each country in the world economy. This weighted system contrasts with the one-state, one-vote models of other major international governmental organizations, including the United Nations General Assembly and the World Trade Organization.

The most significant element of the governance structures is the member and quota system of the Fund, which until recently has also determined member state status and voting rights at the Bank. The number of a member states’ “quotas,” based on each country’s share of the world’s GDP and a few other variables, services four functions: the member’s voting power in the Fund and Bank, its access limits to the financial resources that the two institutions command, its share in any Special Drawing Right (SDR) allocations at the Fund or concessional loans or grants (at the International Bank for Reconstruction and Development and International Development Association), and each member state’s financial contribution to the institutions’ capital base.

The quota formula itself is deeply rooted in the history of the institutions and has been subject to contestation regarding its exact determinants. As described by Fund historian James Boughton (2012, 780):

The starting point for any discussion of the appropriate distribution of quota among member countries is a set of equations known as the ‘Bretton Woods formula’ and its variants. The US team at Bretton Woods in 1944 constructed the original equation to produce a list of quotas that would be broadly acceptable to the potential membership of the IMF. The equation’s arguments included estimates of each country’s national income, international trade, and official reserves; and its coefficients were determined heuristically (not by statistical techniques) to generate a desired set of results. Subsequent modifications to, and variations on, the Bretton Woods formula were negotiated by the Executive Board with the aim of updating the distribution through the period general reviews. In a typical round of discussions, the staff would compute a list of quotas based on updated data, Executive Directors would complain about their implications for their countries, and the staff would modify the equation to tweak the results until a consensus developed that the outcome was acceptable.
The evolving debate over the calculation of member states’ quotas has been the subject of intense scrutiny because of the distributional implications. Assigned quotas have a direct effect on member countries’ representation within the Fund and Bank by determining the number of votes each states controls on each of the institutions’ EBDs. Indeed, in both cases, the Executive Board is the main decision-making body, which exercises oversight and control over the management of the institutions. While many decisions are made on a consensus basis, major loan or charter amendment decisions (including the recalculation of quotes or basic shares) are taken on the basis of weighted votes. This grants considerable influence to the largest shareholders: the United States, Japan, and major European states (namely Britain, France, and Germany).3 In the case of the United States, this often translates into de facto veto power for any decisions requiring a super-majority vote, such as charter amendments and selection of Fund Managing Director and Bank President.

The structures of the Fund and Bank boards intentionally parallel each other. The Fund’s Executive Board is currently composed of twenty-four Directors representing 188 member states, who are appointed single seats (five) or elected by member countries or by groups of countries known as constituencies (nineteen). The Managing Director, who, according to the 1944 gentlemen’s agreement is always a European, serves as its Chairperson. At the Bank, there are currently twenty-five Executive Directors representing 188 member states (six appointed single seats, twenty elected constituent seats). Again, the Executive Board is chaired by the World Bank Group President, who, by the same seventy-year-old gentlemen’s agreement, is American. The Executive Directors reside year-round in Washington, DC and usually meet several times each week to discuss virtually all aspects of Fund and Bank activities, from financial assistance to surveillance and administrative and budgetary issues.4

These voting and representation rules, as detailed in various histories of the Fund and Bank (see, e.g. Kapur, Lewis, and Webb 1997; Boughton 2012; Helleiner 2014), were dictated over seventy years ago by necessity. The viability of the two organizations at their birth depended overwhelmingly on the buy-in of major donor states. This was especially true of the United States, which pushed hard for voice and votes proportional to the amount of capital that the United States was injecting into the Fund and Bank coffers (Kapur, Lewis, and Webb 1997; Mason and Asher 1973). Moreover, the United States locked in its influence by pushing for voting rules that installed de facto veto power for the postwar hegemon, dictating that all future changes to the charters of the Fund and Bank, as well as some significant lending, operational, and governance changes, be subject to a super-majority voting rule on the executive boards of the respective institutions. This makes it nearly impossible to enact major change without the agreement of the United States.
Catalysts of Change and Bounded Reforms

By the turn of the century, discontent with the Fund and Bank had spurred the growth of a cottage-industry of non-governmental organization (NGO) watchdogs and activists who openly criticized the underlying governance, policies, and practices of both organizations. This was epitomized in the “Fifty Years is Enough” campaign around the 50th anniversary of Bretton Woods in 1994 and the slew of critical books and articles written in the wake of the East Asian, Russian, Brazilian, and Venezuelan financial crises between 1997 and 2002 (see e.g. Blustein 2003, 2006; Mallaby 2004). By 2000, there were abundant proposals that sought to address the perceived imbalance between the voice and representation of post-World War II victors on the Fund and Bank boards and the actual global balance of economic power in the twenty-first century (Buira 2005; Chowla, Oatham, and Wren 2007; Bradlow 2006). In simplest terms, the rise of the BRICS, the long recession in Japan, and the waning economic weight of Western Europe and the United States called into question the very legitimacy of institutions’ governance and the specter of rejection of the post-World War II institutional order that was not inclusive of rising powers (Boughton 2009). By 2010, even Robert Zoellick (then President of the World Bank) publicly argued that “the outdated categorizations of First and Third Worlds, donors and supplicants, leader and led, no longer fit. The implications for multilateralism, global cooperative action, power relationships, development and institutional institutions are profound” (Zoellick 2010, 40).

The history of the Fund and Bank leading to major governance reforms cannot be narrowly explained by the debates that took place within the two organizations. The process of change was also incited by the G20’s increased focus on development and governance of the international financial institutions (Kharas and Lombardi 2012). Indeed, since the beginning of the 2000s, the original finance and monetary officials of the G20 began including development and aid to their agenda (G20 2002), thus building on the “Monterrey Consensus” that had been achieved at the UN Conference on financing for development in the early 2002. Furthermore, starting in mid-2005, with China chairing the G20, the Group broadened its focus to the governance of international financial institutions—an emphasis that has since then become a “distinctive feature of the Group” (Kharas and Lombardi 2012, 6). This trend continued following the creation of the G20 Leaders in 2008 on the heels of the global financial crisis. In particular, discussions among G20 heads of state and government on increased funding and replenishments of the capital bases at the Fund and Bank have created momentum for the governance reform agendas (Linn 2009). In short, the G20 was “instrumental in catalyzing a consensus on governance reforms” (Kharas and Lombardi 2012, 12) nurturing
an implicit contract between developed and developing countries aimed at rebalancing power and responsibility in the global economy (Ramachandran 2009; Katasonov 2014).

The emerging consensus at the G20 summits, notably led by then French President Nicholas Sarkozy and British Prime Minister Gordon Brown, coincided with a marked shift in demand for Fund and Bank services from emerging and developing market economies. Even in the face of the 2008 financial crisis, demand for Fund bailouts was weak beyond the European peripheral states. Likewise, large emerging market economies that were once the bread and butter of the Bank’s business model, such as China, Russia, Brazil, and India, entered middle income status in the late 1990s and began serving as net lenders, rather than borrowers, in the international development community. Growing domestic and international private capital flows, increased foreign direct investment, exploding remittance and development assistance from non-DAC donors (e.g. China, Brazil, and India) also threatened (and continue to challenge) the core relevance of both institutions.

This burgeoning discontent and declining demand contributed to proposals for alternative institutions to the Fund in the form of the Asian Monetary Fund (debated in 1997) and later the Chiang Mai Initiative (Lipsy 2003; Grimes 2011). In both cases, the driving motive was to establish an organization that was capable of replacing countries’ dependence on the Fund as lender of last resort during periods of imbalances of payments and financial crises, as well as the development of institutions based upon an ideological model and governance structure that was greatly distanced from Washington, DC and its infamous neoliberal consensus. More recently, in 2013, emerging market powers established the New Development Bank (NDB, also known as the BRICS Bank after its founding members: Brazil, Russia, India, China, and South Africa) as an alternative to both the Fund and the Bank. In this instance, the NDB consciously adopted a one-state, one-vote system, a development mandate oriented around infrastructural joint venture investments that countered the Bank’s highly conditioned lending, and a Contingency Reserve Arrangement (CRA) to provide member states with protection against global liquidity pressures without having to resort to the Fund’s lines of credit (Totten 2014).

Over the past five to ten years, it has been all too easy to find speeches or articles that question whether or not we still need the Fund or Bank (Buira 2005; de Tray 2007; Moyo 2010). Even the most benign commentaries from institutional insiders and sympathetic parties call for a rebalancing of the voice and representation of states in both organizations to redress grievances regarding accountability and to reflect a twenty-first century world order (Stiglitz 2003; Kenen 2007; Truman 2006; Zedillo et al. 2009; Zoellick 2010). Yet, even in the face of persistent calls for organizational reform and the
opportunity structure created by the debate within the G20, change has been slow and limited due to political and institutional constraints that characterize policy-making and implementation for the two organizations.

The Unfulfilled Promise of Parity at the Bank

The reforms that have unfolded at the Bank since 2008 are on paper promising, if ultimately disappointing upon delivery. Unlike the stilted reform package of the Fund (detailed in the following), the Bank has actually managed to propose, and pass, voice and vote reforms that at least symbolically adhere to the G20 vision of achieving greater parity between status quo and rising powers. The modest, albeit caveated, success is also a result of the confluence of external and internal pressures for reform, particularly the championing of reform by then President Robert Zoellick (2007–12), an aggressive external high-level commission, and a proactive Executive Board.

The Bank voice and vote reforms, which unfolded in two phases in 2008 and 2010, reflected overwhelming demand for restructuring of representation and votes/capital subscriptions on the Boards of Directors. As Robert Zoellick noted, by 2008, the seat constituencies and voting power of the member states of the Bank poorly reflected the growing economic power of developing and transitional countries (DTCs, in Bank vernacular). In particular, Zoellick noted, Asia’s share of the global economy in terms of purchasing power parity (PPP) had risen from 7 percent in 1980 to 21 percent in 2008, with a 32 percent share of the global stock market that exceeded America’s 30 percent and Europe’s 25 percent (Zoellick 2010). Moreover, high growth rates in sub-Saharan Africa and South Asia increased the developing countries’ share of global GDP, adjusted for PPP, from 34 percent in 1980 to 43 percent in 2010. Yet by 2008, the United States, Japan, Germany, France, and Britain all still held the only single (appointed) seats on the Bank’s Board of Executive Directors and developed countries as a whole controlled the majority of votes, despite not being the primary beneficiaries of the Bank’s services. Discontent with this imbalance played a large part in inciting the creation of a high-level commission on Modernization of World Bank Group Governance. The commission, chaired by former President of Mexico Ernesto Zedillo, pushed fiercely for greater parity between Part I (“developed”) and Part II (“developing”) countries and more regular reviews of shareholdings that would be disconnected from Fund quota calculations and better aligned with Bank member states’ relative share of global output.5

As detailed in the excellent analyses by Vestergaard (2011) and Vestergaard and Wade (2013), the end result of the reform was a very modest shift in voice

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and votes. There was an increase of seats from twenty-four to twenty-five, with the one additional seat going to an African-led constituency. In terms of shareholdings and votes, there was a net gain of less than 5 percent of the total votes for developing and transitional economies. To further problematize the issue, Vestergaard and Wade (2013) critically examine the rhetoric surrounding the reform outcomes and unpack the strategic use of “developed countries” (DCs) versus “developing and transitional countries” (DTCs). They argue:

the voice reform increased the share of DTCs from 42.60 to 47.19% and reduced the share of developed countries from 57.40% to 52.81%. So at first glance, the voice reforms brought the World Bank close to voting power parity (50%) … In reality, the shift was much more modest, because the DTC category includes several high-income countries which should not be in the developing country category and do not borrow from the Bank. Including only low and middle income countries—the Bank’s borrower members—the voting shares of developing countries (in the proper sense of the term) increased from 34% to only 38.38%, while the developed (high-income) countries retained more than 60%.

(Vestergaard and Wade 2013, 153)6

More critically, Vestergaard and Wade (2013) argue, the minimal gains for poorer countries resulted from internal debate on the Board regarding options on the doubling or tripling of basic votes and the calculation of member states’ share of global GDP, which then translates roughly into their share of votes on the Bank Board. Proponents of deeper reforms argued in favor of tripling basic shares (from 250 to 750 per state) and GDP calculated in PPP terms (which dramatically shifts the weight of global economy toward the so-called developing countries). Status quo powers, particularly Germany, argued for—and ultimately won—more conservative proposals that favored GDP (weighted 75 percent), past and future contributions to the IDA (20 percent), and each country’s history of Bank borrowing (5 percent) (Vestergaard and Wade 2013, 155). This “consensus” was ensured by an obscure rule in the Bank Articles of Amendment, which grants “the right of each member to maintain its existing pro rata share in the capital on the occasion of any increase in the authorized capital” (Vestergaard and Wade 2013, 155).

In the end, as described by Vestergaard and Wade (2013), the meager relative gains in votes were had by only a few emerging market powers. China was the big winner, and now holds a single appointed seat and 5.04 percent of the votes (as of February 4, 2015). However, many wonder if the increased shareholdings, and thus votes, of China will actually manifest into more voice and influence. Such a transition requires China to assume more responsibility in exercising voice and influence at the Bank. However, its current preferences appear more closely aligned with establishing alternative sources of development assistance through new institutions such as the NDB.
and the Asia Infrastructure Investment Bank than working through established multilateral channels (Weaver 2015).

According to the Bretton Woods Project, a critical NGO watchdog group, the results of the 2010 voting reforms fell far short of espoused goals to grant more voice and influence to the poorest member states of the Bank. "Low-income countries languish on just 6 percent [of votes], averaged across the different arms of the World Bank. Yet developing countries represent over 80 percent of the world’s population and Bank’s membership; are where almost all of the Bank’s activities take place; and, through loan repayments, are the main financial contributors to the Bank" (Bretton Woods Project 2010). While the basic votes of all 188 member states were doubled (from 250 to 500) for the first time since 1944, this meant in practice only minimal gains in overall votes “at the second decimal point” for nearly all low-income countries (Vestergaard 2011).

The realization of deeper reform objectives has been thwarted by deeply rooted interests, norms, and practices that continue to shape the calculations of member state shares according to political consensus over “historical and future contributions.” Despite rhetoric to the contrary, there has been little effort to amend formal rules and deter informal practices that do not cleanly derive from transparent metrics that equate member state shares and votes with their actual economic weight in the world economy. Thus, while voice and vote reforms were in fact passed at the Bank, the overall impact on the equity and accountability of the Bank’s core governance was relatively minor.

**Fund Reform: A Faustian Bargain?**

On October 23, 2010, the G20 Finance Ministers reached agreement on supporting reform of the Fund to give a bigger voice to developing countries and to reflect a broader shift of global economic power. The consensus reflected a critical breaking point in tolerance for voting weights and constituent seats that still reflect the relative size of economies when the Fund was created in 1945. The deal was concluded in the South Korean city of Gyeongju and was accompanied by the commitment to double the Fund’s quotas in order to improve the Fund’s capacity to cope with future financial crises. The agreement built upon a 2008 proposal at the Fund for a new quota formula that included an aggregate shift in quota shares totaling almost five percentage points for fifty-four members (mainly emerging market and developing countries, or EMDCs), a 2.7 percent increase in voting share of EMDCs as a whole, a tripling of basic votes, and an additional Alternate Executive Director for the largest member constituencies, currently the two sub-Saharan African
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chairs. With this proposal, declared India’s Finance Minister, the Fund’s credibility “has been corrected, not to the fullest extent, but substantially.”

After Gyengou, the reform proposal moved into the Fund. Fund staff prepared the background documents that paved the way for the Executive Board approval that took place on November 5, 2010. Analysis of public pronouncements and internal documents reveals how staff members were supportive of efforts to realign members’ voting powers and voice. In particular, virtually in virtually all public records, staff used the words legitimacy and efficiency in conjunction as a way to justify the reforms. In order to push through what was regarded as a necessary reform for the future of the organization, Fund staff proposed a “single package” for the reform, bundling together quota and governance reform as a way to assuage critics and to prevent the reform from being killed by opponents of just one leg of the reform package.

It was not immediately clear how consensus could be reached on such reform within the Board of Executive Directors. In particular, the reforms required European member states’ acceptance of changes which would reduce their quota subscriptions and, in turn, their voting power. Up to that point, European directors occupied nine of the twenty-four seats. Germany, France, and Britain appoint their own Executive Directors, and other chairs are held at one time or another by up to seven other European countries.

However, the agreement reached at the G20 was critical for placing enough external pressure on the Board to create the conditions for countries to reassess their positions and a new opportunity structure for the advocates of reform to push for it. More critically, the United States forced the question. Here is the account of what happened from the perspective of the Brazilian Executive Director (Batista 2010):

the US did something unprecedented. Since 1992, when the number of IMF members increased substantially as the Socialist bloc dissolved, the Fund’s governors—generally finance ministers or central bank presidents—have voted to keep 24 places on its executive board. Some of these chairs are held by individual nations, while others represent groups of countries. But IMF rules actually stipulate that 20 chairs should be the norm, unless 85 per cent of those voting decide to change this number. Because it holds 17 per cent of the votes, the US has the power to veto the continuation of the 24 chairs arrangement. That is just what it decided to do. This might not sound dramatic, but the move justified its internal description as “the nuclear option”. It also came as a complete surprise; the Europeans, in particular, simply did not believe America would go for such an extreme measure. The US justified the move as a spur to increasing representation of developing countries—although it is also likely to reflect long-standing frustration with the fact that the American director on the IMF board has to face eight (sometimes nine) Europeans. Even so, the dramatic gambit has given new impetus to reform negotiations that had ground to a halt.
The US stance was the most proximate catalyst for setting in motion the process of change. Why the United States (via its Executive Director, and ostensibly the direction of the US Treasury or Executive Branch) did this is more of a mystery. Several factors have combined in shaping the US stance including the Obama administration’s objective to make emerging-market economies responsible stakeholders in the international monetary system and the conviction that quota reallocations, though important, can exert limited impact on the Fund’s own decision-making (Lombardi 2010).

What is most important to the purpose of this study is that, even with US pressure, the negotiations did not go easily. As Fund scholar Edwin Truman argues, “almost all elements in the package involve zero-sum situations in which some countries are perceived as gaining at the expense of others” (Truman, 2010). Indeed, the quota increase, as all quota increases in the organization, offers an opportunity for countries to increase their voting power, their borrowing limits, their shares in any SDR allocations, and their prestige among their peers. However, increases in one country’s quota imply closing the gap with somebody else’s quotas, thus generating significant distributional issues. For instance, if and when the changes take effect, Brazil, Russia, India, and China will be all included in the Fund’s ten biggest shareholders.

Furthermore, the reform of the Executive Board governance is politically contentious because it discards the privilege accorded to some member either by law (as is the case of the five largest members of the Fund that appoint their own Director in the Board) or by practice (as is the case for those Fund constituencies who have been traditionally represented by a Director from a specific country) (Woods and Lombardi 2006).

While it is difficult to resolve the particular mystery of the 2008 proposal, in November 2010 the Fund Executive Board approved what has since been (probably too quickly) dubbed a “landmark” reform to its internal governance. According to the then-Managing Director Dominique Strauss-Kahn (2010), “this historic agreement is the most fundamental governance overhaul in the Fund’s 65-year history.” Under the package now known as the quota and governance reform, a doubling of quotas was proposed along with a major realignment of quota shares among members (for a detailed account of the reform proposal, see Nelson and Weiss 2014). Its implementation promises a shift of more than 6 percent of quota shares to TDCs and more than 6 percent from over-represented to under-represented countries, all the while protecting the quota shares and voting power of the poorest members. The reform also entailed a proposal to amend the Fund’s Articles of Agreement in order to create a more representative, all-elected Board. Members also agreed to make best efforts to complete the proposed quota increases and the amendment to the Fund’s Articles by the Annual Meeting of the Board of Governors in October 2012. In some cases, this would involve parliamentary ratification.
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It is in the requirement of parliamentary ratification that the irony of the “single package” grand bargain lays. October 2012 has long passed, and the Fund reform proposal remains on the table. Thus far, the US Congress has failed to pass a spending bill that would unlock the quota increases needed to push the reforms forward. These increases would double the Fund’s resources and provide more voting power to the BRIC countries, all while reducing the voting weight of European countries. The implications are yet unknown, although (as aforementioned) some have argued that the stalled reforms have compelled the emerging market economies to launch their own currency reserve pool and the NDB (Trindle 2014; Morse and Keohane 2014). The obstacle appears to come from Republican-dominated Congress, which both opposes further spending on the Fund as well as any changes that would water down the relative power of the United States and its European allies vis-à-vis rising powers (especially China). As recently reported by The Economist (2015, 63), Republicans are unlikely to approve a package that might cost the United States its veto in the Fund especially at a time in which they are concerned that the Obama administration had already dented America’s standing in the world.

The reforms at the Fund tell an intriguing tale of a process of change that proved self-defeating. While internal change agents managed to unlock the door to a significant reform proposal that promises to deliver a voice and vote package to reflect a new world order and a renewed Fund, they managed to achieve this goal by adopting change strategies that tried to defuse as much opposition as possible. In particular, Fund staff contributed to the launch of the reform process by invoking norms of efficiency and legitimacy that appealed to multiple constituencies with conflicting interests. However, this strategy increased the number of players with a say in the reform process, ultimately leading to its blocking.

Conclusion: The Perils of Bounded Reforms

The Fund and the Bank have attracted significant criticisms over the past decades. They have often been accused of adopting double standards in their assessment of advanced and developing economies and been criticized for their uneven treatment in the provision of financial assistance across groups of countries.9 While these criticisms reflect some crucial shortcomings of the two organizations, they should not obscure the important public functions that they perform. In a world of increased financial integration, the Bretton Woods institutions are critical for macroeconomic coordination, financial assistance, and development support. As for any other institution at the domestic level and other international organizations, the performance of
these functions is critically dependent on the political and social support they are able to elicit. Yet the efficiency and legitimacy of the Fund and Bank have been widely questioned over the past several years, inciting extensive discussion and efforts to try to reform the underlying governance rules of the organizations.

The chapter examined how the Fund and the Bank have responded to recent challenges to their relevance, effectiveness, and legitimacy, especially following the global financial crisis that started in 2008. Indeed, the crisis, which emerged and particularly hit the advanced economies, accentuated the long-term changes in the distribution of global economic power. The crisis thus vividly exposed the obsolescence of the governance arrangements created more than seventy years ago in favor of a small group of advanced economies.

Although it would be tempting to read the governance reforms of the Fund and the Bank in light of the “punctuated” model of change, according to which an exogenous shock leads to changes in actors’ preferences, we argued and illustrated that the changes in the governance of the two institutions emerged not so much because it altered the fundamental preferences of the advanced economies. Instead, the 2008 crisis was consequential because, in the context of cascading norms regarding the need for legitimacy and efficiency of global economic governance, it empowered actors that advocated change in the two institutions and led actors who have long opposed it to reassess the strategies through which to continue maintaining their institutional advantage—as was the case for the United States which saw in the reform of the Fund’s governance a way to reassert the architecture created at the end of World War II.

Our argument thus combines insights from historical and sociological institutionalism contributing to the insights developed in other chapters in this volume (Farrell and Finnemore, Chapter 7; Bernstein and van der Ven, Chapter 14). Specifically, our analysis shows that SI can enrich HI scholarship by explaining why actors disadvantaged by a specific institutional configuration can nonetheless overcome the status quo as they become empowered by the emergence of new normative understandings. In the case under investigation, the advocacy for change voiced by developing and emerging market countries was empowered by the emergence of norms cultivated in supranational forums like the G20 as well as by staff members positing a linkage between governance reforms and the need for legitimacy and efficiency in the global economic regime.

Despite the post-crisis reform push, however, reforms fell short of achieving their full goals because of daunting constraints of path dependency, where rules decided in Bretton Woods 1944 have strongly shaped the opportunities for changing the rules in Washington, DC in 2010. As a result, the outcome of
reform processes at the Fund and Bank has largely disappointed expectations, producing little in the way of voting rule reforms that fundamentally redress core distributional concerns. Indeed, in both organizations, the reallocation of voting shares amounts to far less than the "historical" redistribution that emerging and developing countries had called for. At the same time, however, it is probably more than what many (especially European) advanced economies were ready to concede at the beginning of the negotiations. At the moment, it is difficult to predict whether the incremental changes adopted (or under discussion) will evolve in profound transformations of the governance of the two organizations. However, they certainly amount to one of the most difficult challenges that the Bretton Woods institutions have confronted since their creation.

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This chapter is one of a number of joint works by the authors; the ordering of names reflects a principle of rotation. We would like to thank Orfeo Fioretos for detailed and highly constructive feedback on several versions of this chapter.

**Notes**

1. The literature on Bretton Woods regime is extensive and references are necessarily selective. A detailed account of the role of the Fund and the Bank in the new regime can be found in James (1996). For a more recent interpretation of the Bretton Woods negotiations, see Helleiner (2014).

2. The official history of the Bretton Woods negotiations is provided by Horsefield (1969). On the influence exerted by US and UK officials, led respectively by Harry Dexter White, the chief international economist at the Treasury Department, and John Maynard Keynes, adviser to the British Treasury see, among others, Boughton (2002).

3. Although the Fund and World Bank Group Executive Boards are the main policy making-bodies in both institutions in charge of the day-to-day activities of the organization, the highest political authority is the Board of Governors, where each of the 187 (Fund) and 188 (Bank) member countries is represented. The Board of Governors normally meets twice a year. Of course, the consensus rule does not eliminate the effects of the weighted voting system. At the Fund, for example, in order to ascertain the consensus, the Managing Director has to assess whether a decision is supported by Executive Directors having sufficient votes to carry the question if a vote were taken (Van Houtven 2002).

4. Some issues, however, are firmly under the responsibility of the Board of Governors. These issues include, for instance, the admittance of new members, compulsory
withdrawal of members, and amendments to the Fund and World Bank Group Articles of Agreement.

5. Authors’ interviews with Commission committee members. See also Zedillo et al. (2009) and World Bank (2013).

6. The DTC category used by the Bank included South Korea, which by the time of reforms had a GDP per capita exceeding that of Greece and full membership in the OECD.


8. In one of the official histories of the Fund, James Boughton (2001, 57) observes that, in general, “both the general reviews and discussions of quotas for new members became an occasion for countries to support their friends and occasionally to punish their enemies; assignments of quotas to new members offered an opportunity to define their position in the international political and economic hierarchy. Furthermore, discussion of quota increases became part of the perennial dialogue on the appropriate balance between financing and adjustment for deficit countries. Some creditor countries sought to limit the size of quotas as an indirect way of limiting access to Fund resources and thus forcing stricter adjustment on borrowing countries.”

9. For instance, a recent assessment of the Independent Evaluation Office (IEO) reveals that several national authorities outside Europe perceived the financial assistance to euro area countries as a further instance of the uneven treatment that the Fund reserves for its members (Independent Evaluation Office 2013, 29).

References


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