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The World Bank-IMF meetings

Money, votes and politics

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Battles over money and power at the World Bank and IMF

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“WE ARE into the world of politics”, said the World Bank’s president, Robert Zoellick, at the two-day annual meetings of the World Bank and the International Monetary Fund, ending on Wednesday October 7th in Istanbul. Mr Zoellick was referring to the disagreements between richer and poorer countries over his institution’s pleas for more funding to cope with the aftermath of the financial crisis. But his statement held true for much of what went on at this year’s meetings.

It was easy to reach broad agreement that it was too early for governments and central banks to begin winding down their big stimulus packages. But opinions diverged over the need to boost the funding of the world’s main financial institutions, and even more so when it came to discussing demands by big developing countries such as China and India for more voting power on their boards.

That such a shift in influence away from the rich countries is under way was clear from the outcome of the G20 summit in Pittsburgh on September 25th. The G20, which includes the biggest rich and emerging economies, anointed itself the primary forum for international economic co-operation, replacing the G7, a more exclusive rich-world club that will now concentrate mainly on security matters. The G7’s members largely accept this but some are struggling to come to terms with the G20’s agreement that there should be a 5% shift in countries’ quotas in the IMF. These determine their share of the vote in the fund, and the contributions they are expected to make to it. Any change will move power away from the rich countries, which are over-represented in proportion to their share of the world economy, towards the under-represented developing ones.

Nobody expected a firm decision at the Istanbul talks on precisely how to adjust the voting system. This will be the subject of negotiations that the IMF aims to wrap up by 2011. But in a sign of how tough these will be, the statements of European countries (the likely losers from a change in voting power) were rather different in tone and substance than those of their Asian and Latin American counterparts, who stand to gain.

Axel Weber, the chairman of the Bundesbank and Germany's governor at the fund, said that "the quota review should be based on the equal treatment of all members". It was striking that neither he nor his French counterpart, Christian Noyer, made a specific reference to the 5% quota shift towards the emerging world, preferring to talk in general terms.

Eswar Prasad, a former IMF official who now teaches at Cornell University, says that the Europeans "are still supportive of the shift in principle but aren't ready to accept what that implies in reality. Nuances about what the 5% shift means and entails are creeping into all of the European countries' statements." In contrast, India's finance minister, Pranab Mukherjee, reiterated his country's demand for the quota shift to be 7%. America seems to have thrown its weight behind the emerging world on this issue.

However, America joined Britain and France to give the World Bank's request for a capital increase a distinctly lukewarm reception. Having lent $33 billion this year, up from $13.5 billion in the previous year, the bank is worried about having to ration resources by the middle of next year. Developing countries were broadly in support of a capital injection, but rich ones—which would have to foot most of the bill—were less enthusiastic. They would like to see further proof that the bank is using the resources it has efficiently before thinking about more. The bank for its part realises that getting national parliaments' approval for sending more money to international institutions will be hard at a time when governments' finances are so overstretched. Besides pressing for more funds for the World Bank, the poorer countries are also pressing to have an even bigger say in the bank's running than the G20 has proposed.

As noted by the IMF's managing director, Dominique Strauss-Kahn, the world has changed greatly since the equivalent meetings a year ago which came soon after the collapse of Lehman Brothers. The world economy is no longer seen by most to be on the brink of another Depression. However, the meetings in Istanbul made it clear that it will take some time for the politics of the international financial system to catch up with the shift in economic power that the crisis has precipitated.

Even before the crisis, according to the World Bank, nearly three-fifths of the growth in global GDP came from China and India alone. This year, pretty much all the growth in the world economy will come from outside the rich world. This has made reform of the international financial institutions, which already looked out of sync with reality before the crisis, even more urgent. The question is how long it will take for those who currently hold power to accept this.

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