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NOW IS THE TIME FOR PERMANENT GOVERNANCE CHANGES

Colin Bradford and Johannes Linn



What's at Stake

The major focus of the first-ever G-20 Summit on November 15 will be on the global financial crisis and how to deal collectively with it. Summiters will quickly discover that some of their most important choices will be about institutions and governance mechanisms for both deciding and implementing proposals to address the financial crisis. Indeed, one of the most important clusters of issues that leaders can actually decide upon on November 15th is the institutional and governance dimension.

G-20 leaders will face each other in this grouping for the first time to deal with the highest priority issue on the global agenda of the moment—an issue truly warranting a summit. But the G-20 Summit de facto confronts the question of what is the appropriate group of countries to constitute the apex summit on such high profile and high priority issues. It is clear to most observers that the G-8 summit has failed to establish its legitimacy as a global steering committee precisely because the G-8 countries are Western industrial rich countries in a world that is predominantly non-Western, non-industrial and poor. The G-8 mirrors a transatlantic bias in the power structure of the IMF and the World Bank where emerging market economies in general and fast industrializing countries in Asia, in particular, are seriously under-represented.

It is fortuitous that the financial crisis forced a summit of the member countries of the G-20 finance ministers' grouping, which has been meeting successfully

twice a year since the Asian financial crisis. Many, including particularly Paul Martin, the first chair of the G-20 finance ministers in the early years before becoming Canadian prime minister, have been advocating for some years that a G-20 summit replace the G-8 for global issues. For the past four years at Brookings, we have led a series of seminars, joint with the Centre for International Governance Innovation of Canada, to discuss international institutional and global governance reform issues with Washington-based officials from G-20 countries.

The appropriateness of the group goes beyond financial issues because most of the countries in the G-20 are the major players and have the biggest weight in all the major issues of energy and climate change, global poverty and health, trade and jobs, and security issues as well. The fact that G-20 finance ministers have a track record of effective cooperation and coordination lends credibility to this group of countries as being able to work together on other issues. And finally, and perhaps, most importantly, vaulting from G-8 to G-20 has the advantage of not having to open the Pandora's box on the question of who should be a member of the apex global steering group because the countries in the G-20 finance ministers group is already established.

What Should Be Done

So, the question is: wouldn't it make sense for the G-20 countries to decide on November 15 to constitute themselves as the new apex summit to replace

the G-8 with a more inclusive and broadly representative group of countries both to deal with the current financial crisis and to address the other pressing issues as well, such as climate change? We believe so.

For this to happen, the G-8 would have to be willing to cede space at the tables of decision to Asia and other emerging economies. The value of such a decision by the G-8 is that it would signal a readiness on the part of the transatlantic powers to shift to a global group, the G-20, which includes the major economic and financial powers, major energy exporters and importers, virtually all major polluters, and four Asian countries and three Islamic nations. It would not only become immediately more credible in dealing with global challenges than the G-8 because of the nations involved but would politically shift the tone, context, style and optics of global governance to a dramatically different configuration that is immediately more inclusive, representative and legitimate.

This move should be accompanied by a decision at the G-20 summit on November 15th by the Europeans and the Americans to shift the selection process for managing director of the IMF (hitherto always a European) and the president of the World Bank (hitherto always an American) to an open, merit-based, competitive selection process. This decision would be congruent with the reconstitution of the apex summit grouping. It would signal a willingness to remove the transatlantic biases and prerogatives from these institutions and move toward transforming them into truly global institutions with reconfigured power structures through further reforms in the future. This coordinated step by the U.S. and the Europeans would be the right signal at the right moment to convey the message that the global problems we face cannot be solved unless the mechanisms and institutions meant to address them are themselves global in scope, representation and power structure. Beyond this concrete decision, the G-20 summit should make a credible commitment towards

a serious review of the functions and governance of the IMF and the World Bank, including a greater voice and vote for the emerging market economies in their boards, and forge an effective role of these institutions in supporting the agenda of the G-20 summit.

On the basis of these two steps, initiated by the G-8 countries, but hopefully fully shared and supported by the 10 emerging market members of the G-20, the economic and financial reform proposals generated by the G-20 Summit itself should be entrusted and assigned to the G-20 finance ministers and to the IMF and the World Bank. The *glaring biases* manifested by the fact that, under the current system, the G7 finance ministers – a group even more restrictive than the G-8 – were setting the agenda for the G-8 heads of state, who in turn were setting the agendas of the Fund and the Bank, in which the G7/G-8 had dominant control, would be replaced by a *new congruence* of the G-20 heads directing the G-20 finance ministers to make proposals for the Fund and the Bank which would be moving more decisively toward more globally representative power structures under these new arrangements than up to now.

The Bottom Line

Credible actions towards global governance reform of the summit mechanism itself and towards institutional reform of the Fund and the Bank are two necessary, meaningful and feasible components for a successful first-ever G-20 Summit on November 15th. These two reforms are necessary if the other economic and financial proposals generated by the summit are to be received by the world as broadly representative of global interests, with the promise of long-term cooperation among a group of key countries needed to effectively address major global issues in a credible manner. This would be reinforced by the commitment that the leading international institutions will be reformed to reflect the new diversity and power configuration of



the global economy so that they too can more credibly and effectively address the overarching global challenges of today and tomorrow.

Colin Bradford is a Nonresident Senior Fellow with the Brookings Institution, and Johannes Linn is a Senior Fellow and Executive Director of the Wolfensohn Center for Development at Brookings.