



Creating a Global Economic Council – six easy steps

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Criticism of the G20 – its lack of representational legitimacy and its limited effectiveness in dealing with global economic governance issues – is often met with the objection that it is better than the G7 or G8, and there is no alternative model. This policy brief outlines how to establish one promising alternative, which we call the Global Economic Council (GEC). In six easy steps, starting from the existing Bretton Woods system.

*Jakob Vestergaard, DIIS (jve@diis.dk)
and Robert Wade, LSE (r.wade@lse.ac.uk)*

STARTING OVER AGAIN

We start from the premise that the Global Economic Council should share key features with the existing Bretton Woods organizations, the World Bank and the IMF. It should be comprised of 25 chairs; each chair represents a country constituency; all states which wish to be members are included in a constituency. However, the existing country constituencies of the Bretton Woods organizations themselves need to be reformed before they can be used as the template for the GEC constituencies.

Instead of tweaking the existing Bretton Woods constituencies, what would they look like if rethought from the beginning? What new principles should guide the allocation of chairs among regions and within regions, to apply to both the Bretton Woods organizations and the new GEC? In the following we outline how the world may be divided in four main regions; how the total of 25 chairs may be distributed between these four regions, and how country constituencies may then be formed within each of these regions on the basis of ‘GDP voting’.

POLICY RECOMMENDATIONS

- Create a Global Economic Council, with 25 chairs, each representing a country constituency, as in the governing bodies of the current Bretton Woods organizations.
- Instead of tweaking the existing country constituencies of the Bretton Woods system to better reflect the multipolar world economy, ask what they would look like if rethought from the beginning.
- Divide the world in four main regions and allocate four chairs to each region. Allocate the remaining nine chairs according to economic weight. At current levels of GDP, this would give the Americas, Asia and Europe seven chairs each, and Africa four.
- Let countries form constituencies within these four world regions on the basis of ‘GDP voting’, following the principles and steps outlined below.

REPRESENTATION BY REGION

The first principle should be representation of the world’s main regions; and above all, more representation of African countries than in the Bretton Woods organizations (not to mention than in the G20 as currently configured). We propose to base the GEC and Bretton Woods constituencies on a breakdown into four main regions: Africa, Asia, Europe, and the Americas and Australasia. Dividing the world in these four regions is based on the principle of trying to achieve homogeneity of size, both in terms of population and in terms of GDP. Table 1 shows the economic weight of these regions by several measures of GDP.



Table 1: The world's four main regions

	GDP (nominal) (billion USD)	GDP (PPP) (billion USD)	GDP (60/40)	GDP (60/40) (% of total)
Africa	1440	2847	2003	3.23
Americas & Australasia	20608	22570	21393	34.54
Asia	16525	27357	20858	33.68
Europe	17690	17664	17680	28.55
Total	56263	70438	61933	100

Sixteen seats in the council should be distributed equally among each of these four main regions, or four seats per region.

The second principle should be representation according to economic weight. We propose that nine additional seats be assigned to the four regions in proportion to their share of world GDP. (Nine additional seats brings the total size to the same as the current boards of the Bretton Woods organizations.) At current GDP shares, all regions except Africa would get three additional seats each.

Together, the application of these two principles would give Africa four seats and the three other regions seven seats each. See Table 2.

Table 2: GDP and allocation of seats in revised Bretton Woods system

	GDP (pct. of total)	GDP seat indicator	Allocation of GDP seats	Regional seats	Total number of seats
Africa	3.23	0.30	0	4	4
Americas & Australasia	34.54	3.11	3	4	7
Asia	33.68	3.03	3	4	7
Europe	28.55	2.57	3	4	7
Total	-	-	9	16	25

FORMING NEW COUNTRY CONSTITUENCIES

Within the four main regions assignment of chairs between states should be based on the following steps:

- 1: Governments within each region would negotiate to form constituencies, with a minimum of three and a maximum of 17 countries in each. (This would break with the current Bretton Woods 'mixed system' of eight single-country chairs and 17 multiple-country chairs.) Size restrictions are needed to balance the interests of big powers (US, China, etc.) in limiting the number of countries in their constituency with the general interest in limiting the average and maximum size of the remaining constituencies. If the eight countries that currently hold single-country chairs all decide to form the smallest country constituencies (three), their constituencies would account for 24 countries, leaving the remaining 163 countries to distribute themselves among the remaining 17 country constituencies, with an average size of just under ten.

- 2: Two types of constituency may be formed: “narrow” ones (three countries) and “broad” ones (five to 17). For each narrow constituency there must be at least two broad ones. This criterion means that there can be no more than two narrow constituencies in Asia, Europe and Americas+, and only one in Africa.
- 3: The first round of the “election” invites nominations for narrow constituencies. Which of the nominated groups get the region’s one (Africa) or two (Americas+, Asia, Europe) narrow country constituency seats is established on the criteria of biggest aggregate GDP. In the case of Asia, the country constituencies formed around China and Japan, respectively, will likely get the two narrow constituency seats for the Asian region. They would each invite two other states to join them.
- 4: The second round of the election invites nominations for “broad” constituencies. In addition to not exceeding the upper limit of 17 countries, nominated constituencies must observe the additional criterion of not being smaller than five to ensure that the remaining number of countries in the region may be distributed in the remaining constituencies without violating the restriction on maximum size. After the narrow constituencies are accounted for, the remainder of a region’s seats minus one are now allocated among the nominees on the basis of biggest aggregate GDP. In Asia, Europe and Americas+, this means that four seats are allocated to the four biggest of the nominated “broad” constituencies. In Africa, two seats are allocated to the two largest of the nominated “broad” constituencies.
- 5: Country constituencies which did not get “elected” in this second round of the process are now grouped into the final seat of each region, reserved for this purpose.
- 6: All countries within a constituency may put forward candidates for the chair. The chair is chosen in an election with votes allocated to constituency countries in line with relative GDP. Constituencies would be obliged, however, to institute a mechanism of rotation to ensure consultation and dialogue within the group. In the Bretton Woods organizations, each constituency would have one executive director and one or two deputy directors, and could decide internally whether there should be rotation at both levels or only at deputy level. This flexibility in rotation modalities allows large economic powers – such as the US, Japan and China – to be permanently in the chair of their constituency, but still in consultation with and to a degree answerable to at least two other states. In polarized country constituencies, comprised of large countries together with small countries, the

larger countries should choose to rotate the directorship while the smaller countries rotate at the deputy level.

At periodic intervals (say, every five years) new negotiations for constituencies could be held.

‘GDP VOTING’ IN PRACTICE: THE EXAMPLE OF EUROPE

To illustrate how the election would work, consider the case of Europe. In the first round, when countries compete for the narrow constituency seats available for their region, several different three-country alliances might nominate themselves. Suppose there are three, as shown in table 3.

Table 3: Possible configuration of narrow constituencies in Europe

	Group A	Group B	Group C
Countries	<i>Germany</i> (3202)	<i>UK</i> (2207)	<i>Italy</i> (2036)
	<i>France</i> (2458)	<i>Spain</i> (1474)	<i>Russia</i> (1813)
	<i>Netherlands</i> (745)	<i>Poland</i> (549)	<i>Turkey</i> (786)
Aggregate GDP, bn \$ (60/40)	6405	4230	4635

Note: 2009 data, ‘GDP 60/40’ is a weighted average of GDP at market rates (60) and GDP at purchasing power parity (40). Million USD.

Germany, France and the Netherlands would win one of the two European narrow seats, while the alliance of UK, Spain and Poland would see itself marginally defeated by Italy, Russia and Turkey. Obviously, the process of negotiating these alliances and the ‘election’ would, for all practical purposes, be one and the same thing. In the example given, the UK would be aware that the alliance proposed here might prove to be too weak if Italy, Russia and Turkey were to team up – and would therefore try to form a stronger alliance. It could, for instance, attempt to seduce Italy. But Italy might decide to opt for a stronger position in a coalition with Russia and Turkey instead. In brief, if Group A and Group C had already formed, there would be little the UK could do to ensure membership of a



narrow seat. Of course, this could happen to any of the big European powers, depending on how the negotiation unfolds.

After the election of two narrow seats, alliances would be formed in competition for the four broad seats (five to 17 countries) to be allocated in the second round. The Nordic-Baltic countries (Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden) might nominate themselves for a broad seat, in competition with, say, five other alliances: a Central European alliance (Austria, Belgium, Czech Republic, Luxembourg, Switzerland); an Eastern European alliance (Poland, Hungary, Serbia, Bulgaria, Romania, Slovak Republic, Slovenia); a Southern European alliance (Spain, Greece, Portugal, Malta, San Marino); an alliance formed around the UK (with the participation, for instance, of Ireland, Croatia, Cyprus and Ukraine); and an alliance of European transition economies (from Albania, Armenia, Azerbaijan, Belarus, Bosnia-Herzegovina, Georgia, Kazakhstan, Macedonia, Moldova and Montenegro). In the second round, the four largest of these six broad constituencies would be elected, and the two defeated constituencies would be grouped in a shared constituency in the third and final round to take up the last European seat. At current levels of GDP, the four largest of these six constituencies would be the UK-led, the Southern European, the Central European and the Nordic-Baltic constituencies – and hence the Transition- and Eastern European constituencies

would be grouped into the seventh and last European constituency. Note that the aggregate GDP of three of these constituencies fall within a relatively small band of variation (from 1.2 to 1.5 bn USD).

Table 4: Possible configuration of broad constituencies in Europe

	Central European	Eastern European	Southern European	UK-led alliance	Nordic-Baltic	Transition economies
Countries	Austria Belgium Czech Republic Luxembourg Switzerland	Poland Hungary Serbia Bulgaria Romania Slovak Republic Slovenia	Spain Greece Portugal Malta San Marino	UK Ireland Croatia Cyprus Ukraine	Sweden Norway Finland Denmark Estonia Latvia Lithuania	Albania Armenia Azerbaijan Belarus Bosnia-Herzegovina Georgia Kazakhstan Macedonia Moldova Montenegro
GDP 60/40	1,502,501	1,210,068	2,053,403	2,665,594	1,305,595	377,457

Note: 2009 data, 'GDP 60/40' is a weighted average of GDP at market rates (60) and GDP at purchasing power parity (40). Million USD.

For a short critical view on the problems of the G20, also read the DIIS Policy Brief “The G20 has served its purpose and should be replaced”, by the same authors.

FURTHER READING

Vestergaard, J. and Wade, R. (2011). “Adjusting to multipolarity in the World Bank: Ducking and diving, wriggling and squirming”, *DIIS Working Paper*, 2011:24, Copenhagen: Danish Institute for International Studies.

Vestergaard, J. and Wade, R. (2011). “The new Global Economic Council: governance reform at the G20, the IMF and the World Bank”, *DIIS Working Paper*, 2011:25, Copenhagen: Danish Institute for International Studies.

Vestergaard, J. and Wade, R. (2011). “The G20 has served its purpose and should be replaced”, *DIIS Policy Brief*, October 2011.

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