

Briefing: “Democracy” in the IMF: the threat to the global economy from a colonial relic

The International Monetary Fund (IMF) plays a central role in governing the global economy and in economic policy-making in many developing countries. Yet its voting system established in the colonial era and largely unreformed since, makes a mockery of democracy. It would cause outrage if applied in national or local government.

Votes in the IMF are weighted according to economic criteria such as national income, trade and international capital flows, so that rich countries have far more votes than poor countries, even though the institution’s policies have a much greater impact on the poorest.

As a result, developed countries, with less than 15 per cent of the world population, have 60 per cent of the votes. The US alone has more than 17 per cent of the vote, enough to veto any major policy decision. The whole of Sub-Saharan Africa has 4.61 per cent of votes in the IMF, fewer than France, the UK, Germany or Japan. Luxembourg alone, with a population of 500,000, has nearly twice as many votes as Ethiopia where 70,000,000 people live.

This imbalance of power turns what should be a democratic global institution into a mechanism by which major developed country governments can exercise control over domestic policies across much of the developing world. By contrast, the economic irresponsibility of countries such as the US, though potentially far more damaging to the global economy, goes unchecked.

The IMF’s voting system (and the similar system in the World Bank) was established following the Bretton Woods Conference in 1944, while much of the developing world remained under colonial rule. It was founded largely as an organisation of and for the world’s richest countries. While the IMF’s role and membership, the nature of the global economy and democratic standards have all changed profoundly since its establishment, the IMF’s governance structure has failed to adapt to these changes, because developed country governments have used their power in the IMF to prevent democratic reform.

The IMF’s failure to democratise has undermined its impartiality, legitimacy and consequently effectiveness, allowing it to be turned largely into an instrument of the major developed countries’ geopolitical, commercial and ideological agendas.

As a consequence the IMF has consistently put developed countries’ and creditors’ interests ahead of the interests of its membership as a whole, with the result that:

- it has failed spectacularly to deal with the debt crisis of low-income countries – still going on after a quarter of a century, with devastating economic and social effects, particularly in Sub-Saharan Africa for more than a generation – as creditors have preferred to leave the debt in place to maintain control over debtors’ policies through IMF conditionality;

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- it eventually “resolved” the 1980s debt crisis in middle-income countries in a way that left debtors with massive burdens of domestic debt, and laid the foundations for the financial crises of the 1990s;
- it is generally seen as having mismanaged the 1990s financial crises by imposing inappropriate policy conditions;
- it has failed to reform the international financial architecture to reduce the risk of similar crises in the future; and
- it is proving impotent in the face of the greatest single risk to the international financial system – the massive fiscal and balance of payments deficits in the US.

The IMF’s failure to deal with either the debt crises of the 1980s or the financial crises of the 1990s has resulted in its developing country members being divided into two groups: low-income countries unable to borrow from the IMF on its normal terms, because of their continued over-indebtedness and their debt-ravaged economies; and middle-income countries who do not see the IMF as providing an effective response to financial crises, who prefer instead to bear the cost of building up large foreign exchange reserves to avoid having to resort to IMF support.

This in turn has created a financial crisis for the IMF itself. It is reliant on the interest on its loans to pay its running costs – but its members are increasingly unable or unwilling to borrow, and are repaying existing debts early, so this income stream is drying up. It remains to be seen whether the IMF will swallow the bitter pill of austerity and “adjustment” which it has administered to so many of its developing country members.

More importantly, as long as the IMF is weighed down by its profoundly undemocratic structure, there will be no effective or credible means of dealing with future economic and financial crises. This is a matter of profound concern, as the prospect of rising interest rates increases risks in the global economy.

The only lasting solution is to establish a genuinely democratic governance structure in the IMF, following the basic democratic principles we take for granted at the national and local levels. Such principles clearly do not include weighting votes, directly or indirectly, according to wealth. We would not for a moment consider a national voting system which systematically gives many more votes to the rich than to the poor on policies which apply exclusively to the poor. After more than 60 years, it is time at last to recognise that such a system is equally inadmissible in our global institutions.

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