The G20 has served its purpose and should be replaced with a Global Economic Council on a firmer constitutional foundation

***Robert Wade** and **Jakob Vestergaard** argue that by permanently excluding 172 countries, the G20 deprives the large majority of nations of voice on matters that may crucially affect them. They believe it should be replaced by a Global Economic Council (GEC) based on a delegated voting system, and here they provide details of what this might look like.*

In 1999, in the wake of the East Asian financial crisis, the US Treasury and the German finance ministry chose another 12 states to join the existing G7 as a new G20 of "systemically important" countries to forge agreements on global economic and financial issues. Otherwise, as the G7 states calculated, they would be like the captain of a ship who stands at the wheel moving it from side to side, knowing that the wheel was not connected to the rudder. Of the newcomers, 11 were developing countries. So the formation of the G20 represented a significant expansion of country representation at the top table of global economic governance.

In 2008, in the wake of the Great Crash, US president George Bush convened a summit of the heads of government of the same G20 countries to forge agreements on how to handle the gathering crisis. Since the Washington meeting the G20 leaders have met six times (London, Pittsburgh, Toronto, Seoul, Cannes, and most recently in Los Cabos, Mexico, June 2012) all in hopes of institutionalising global macroeconomic and financial coordination.

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The G20 now has enough of a track record for its performance to be judged. Beyond an early coordination of Keynesian stimulus it has achieved remarkably little, whether on reform of the international monetary system (for example, to dampen large exchange rate misalignments driven by speculation), or reform of the international financial system (Martin Wolf of the Financial Times described the Basel 3 agreement on bank capital adequacy as "a mouse"), or even voice reform at the Bretton Woods organisations. Most of the big member states have become distinctly luke-warm about its continuing utility. A Financial Times headline at the time of the Seoul summit in November 2010 said that the G20 demonstrated "how not to run the world". (See: J. Vestergaard and R. Wade, "The G20 has served its purpose and should be replaced", Journal of Globalization and Development.)

But the problem is not just on the "outputs" side. The organisation also lacks legitimacy on the "inputs" side, in the sense that the membership cannot be "reverse engineered" from any formula of "systemic importance"; or to put the point more generally, the membership does not meet widely accepted criteria of representation. It is not clear by what possible criteria Argentina or Australia might be deemed "systemically important".

By permanently excluding 172 countries from participating in "the premier forum for our international economic cooperation", as it describes itself, the G20 reinforces a trend towards "multilateralism of the big" (MOB). This deprives the large majority of nations of voice on matters that may crucially affect them. The G20 has tried to soften its exclusivity by incorporating the European Union as one of the 20 and by inviting the African Union and ASEAN to send representatives. But the representatives of these regional organisations participate more as observers than as decision-makers.

The absence of explicit membership criteria not only de-legitimises the current membership, it also undermines the G20's ability to remain relevant in a shifting global economy. In addition, the G20 undermines the existing, well-established system of multilateral cooperation in organisations such as the IMF, the World Bank and the United Nations. Representatives of G20 countries who sit in governing positions in these bodies can and do shut their ears when representatives of non-G20 countries speak, knowing that the latter don't count. We argue that the G20 be replaced by a Global Economic Council (GEC) based on a delegated voting system. Specifically, the GEC should be based on a reformed version of the constituency system of the Bretton Woods organisations (the IMF and the World Bank).

It might look as follows:

First, all member states of the Bretton Woods organisations are members of the GEC and are grouped into 25 country constituencies. Each constituency has a seat at the top table but unlike the present Bretton Woods constituency system all constituencies contain multiple countries.

Second, heads of government of each constituency should meet at least twice a year, after prior consultation in their constituencies. Likewise finance ministers and foreign ministers and other sectoral ministers should meet as well.

Third, states have voting power in proportion to their share of world GDP, in place of the current Bretton Woods practice of bringing an ad hoc range of non-GDP criteria into the allocation of voting power, partly with the covert objective on the part of over-represented states of deferring their loss of voting power. In the 2010 voting reforms in the World Bank, some states managed to retain their existing voting share by insisting on new criteria, such as promises of future financial contributions to the soft-loan arm of the Bank.

Fourth, of the 25 seats, 16 are distributed evenly among the world's four main regions (Africa, Americas and Australasia, Asia, and Europe). The remaining nine seats are allocated to the regions in proportion to their share of world GDP. This currently gives all regions except Africa three more seats. In total, Africa has four seats and the other three regions seven seats each.

Fifth, within regions seats are allocated to country constituencies formed on the basis of negotiations in which countries' voting power is proportional to GDP. No constituency is smaller than three countries. Each constituency has one executive director and two deputies, and decides internally whether to have rotation at both levels or only at the level of deputies. Flexibility in rotation modality would allow heavyweights like the US and China to maintain their seat at the top table, while ensuring rotation and consultation via the deputies.

Sixth, the constituencies of the IMF and World Bank are made congruent with those of the GEC.

This system of global economic governance has several advantages on the "inputs" side: It boosts the representation of the 172 states which are not represented or barely represented in the current G20; It strengthens organisation at the regional level; And it provides long-term durability to global economic governance by responding to the rise and fall of nations and regions through a transparent, automatically updated system of weighted voting based on GDP.

As for its mandate (the "outputs" side), it should exercise stewardship of the Bretton Woods organisations, including by appointing their heads — in place of the present opaque non-system dominated by the US and the European Union. Arguably it should appoint the heads of all organisations in the UN family. With such powers its members would certainly take their membership responsibilities seriously, as most of them currently do not. Repeated interaction might – to be optimistic – enable it to reach agreements not only on prisoner's dilemma-type problems, where the parties agree on the nature of the problem, but also where the parties start off with basic disagreements on the nature of the problem (about exchange rates, climate change, etc.).

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