

The Future of Global Economic Governance and the IMF: Challenges and Opportunities for Europe, Emerging Economies and Developing Countries

Executive Summary

Over the last several decades, the sands of global economic governance have been shifting. Emerging markets and developing countries (EMDCs) have experienced unprecedented growth, and the structure of the global economy has undergone a process of transformation. The global financial crisis not only amplified this process, it also produced new challenges and difficulties. As the effects of the crisis linger, it is evident that the world economic dynamic has evolved. It is also clear that a commensurate shift in the paradigms of global governance has yet to take place. For this reason, questions regarding the future role of the IMF, Europe, and EMDCs are more important than ever.

On December 4th 2013, the German Development Institute, Friedrich-Ebert-Stiftung and Bretton Woods Project, in collaboration with the G-24, hosted a high-level workshop in Berlin on “The Future of Global Economic Governance and the IMF – Challenges and Opportunities for Europe, Emerging Economies and Developing Countries.” The aim of the conference was to foster an open exchange on the profound changes in the global economy and the implications thereof for global economic governance and its constituent institutions and members.

The principal issues arising from the conference were as follows:

- **The global economic governance architecture must evolve to reflect the structural transformation that has taken place in the world economy.** However, the means of achieving this evolution are neither simple nor apparent. In an increasingly multipolar world, this requires, at a minimum, cooperation amongst stakeholders and trust in the system of which they are a part. The debate over IMF quota reform appositely illustrates this challenge. Failure to reach a meaningful resolution will undermine the Fund’s legitimacy and influence; nevertheless, resolution remains elusive. At this critical juncture, it is clear that a push towards action is needed.
- **Effective multilateralism is inherently a global public good with systemic as well as national benefits. Yet, in a world of sovereign states, political economy considerations are unavoidable,** and must be recognized in order to be navigated. Domestic concerns can conflict with the collective actions required for the pursuit of global goals. Overcoming this dichotomy will be challenging but not impossible, provided the necessary political will and leadership is mobilized and the democratic accountability of national governments vis-à-vis their electorates is respected.
- **A complex and delicate balance must be reached between effectiveness and legitimacy within the multilateral system.** Whether and to what extent each goal is preferable varies according to the mandate of a given institution, as is evident in the contrast between the G-20 and the IMF. Nevertheless, a degree of equilibrium between these governance principles must be achieved for the sake of credibility, efficacy and impact.

- **The IMF is only as effective as its members believe it to be.** Persistent concerns regarding legitimacy and credibility serve to undermine institutional trust and, if unaddressed, may provoke increasing fragmentation of the financial architecture in favour of regionalism and a plurality of institutions. These concerns are manifest in the evolution of financial safety nets and the potential for growing division along regional lines. Reforms of IMF governance have been undertaken in recent years, but the implementation of the most recent reforms are still being held back by delays in the ratification process in some countries.
- **It is unclear whether the international financial architecture is sufficiently prepared to cope with future crises.** Many states lack the fiscal capacity or policy space to weather large shocks. At the same time, existing institutions exhibit weaknesses that may undermine their ability to provide a global stabilizing effect if needed. This is evident in the decreasing political capital of the G-20 and the enduring governance challenges in the IMF. Resolving these issues must be a priority.

Report

Is There A Role for European Leadership in the Global Economy?

The keynote speech of the conference was provided by Domenico Lombardi, Director of the Global Economy Program at the Centre for International Governance Innovation (CIGI). His presentation revolved around the role of Europe in global economic governance. He began by defining leadership in the context of a large and increasingly complex economic system. Leaders, he noted, have the ability to shape key global economic structures in a way that furthers their own interest while at the same time allowing other economies to flourish. To this extent, the interest of the leader becomes synonymous with the wellbeing of the global economic order of which the leader is a part. A leader naturally supports the global economic infrastructure, thus, through promotion of a rules-based system, contribution to global growth and demand, supply of a global currency and pursuit of market stabilizing behaviour.

Against this backdrop, Mr Lombardi outlined a taxonomy of the requirements of leadership, which are both economic and political in character. While economic size and systemic significance are obvious preconditions, he noted that the inherently political nature of governance necessitates a strong policy framework and adequate external representation in order to transform economic importance into global leadership. Mr Lombardi proceeded to evaluate whether and to what extent these criteria are met by Europe.

The first of the economic requirements is size. Larger economies, by virtue of their economic weight as well as contribution to global growth and demand, naturally occupy a position of increased global influence and significance, which enhances political leverage. While the Eurozone's position as the world's largest economy meets the economic size requirement, Mr. Lombardi did note that the region's contribution to global growth has been consistently decreasing, accounting for 13% of growth in the 1990s but -1% of growth in the 2008-2014 period. By the same token, its growing current account surplus conflicts with a leader's functions and requirements. With regards to systemic importance in commercial, monetary and financial terms – the second economic requirement – the Eurozone is a globally significant trade partner, accounts for the second-largest share of market capitalization, has the largest number of the world's systemically important banks and insurers (as defined by the FSB), and provides a currency that is an key medium of exchange and store of value.

Yet, in spite of its size and systemic significance, the Eurozone has failed to occupy the position of system stabilizer and leader. According to Mr. Lombardi, this can be explained by the region's failure to meet the political requirements of global leadership by way of a strong policy framework and adequate external representation. The Euro area's economic and monetary union is relatively consolidated, in juxtaposition to its disjointed governance structure and limited macro policy coherence. This policy fragmentation has, in turn, inhibited the region's ability to speak with a single voice on the world stage – a leadership necessity.

Mr. Lombardi proceeded to apply the global leadership taxonomy to the U.S. in order to contrast its role as a leader to that of the Eurozone, which is similar in size and significance. The U.S. is the world's second largest economy, and has exhibited a longstanding capacity to absorb a large share of global import demand. Its systemic significance in terms of global finance and currency is unmatched, and it exhibits a strong trade presence and magnetism for global capital. The country's political stabilizing role has been evident since it spearheaded the creation of the international monetary and financial architecture, but was reinforced during and after the financial crisis through the actions of the Federal Reserve as well as the provision of political capital to facilitate the elevation of the G-20 and the establishment of the Financial Stability Board (FSB). Mr. Lombardi emphasized that, while imperfect, U.S. leadership of global economic governance has been unparalleled in the last seven decades.

Mr. Lombardi concluded his presentation by discussing the scope for Europe to occupy a position of global economic leadership going forward. While the Euro area has many of the economic prerequisites for a world leader, its shortcomings in the political sphere are numerous. The fragmentation of its governance structure and policy framework, as well as its failure to present a coherent voice in international institutions and sufficiently serve as a system stabilizer undermines its capacity to play a leading role in governance. To amend this, the Eurozone must develop the institutional and political characteristics necessary to transform its economic size and significance into a commensurate political position of influence and responsibility.

The presentation was followed by open dialogue amongst participants. When asked whether Europe in fact desired a position of global economic leadership, Mr. Lombardi noted that, at its origins, the overarching sense of the European project was to go beyond an integrated market. Whether or not these aspirations have changed, he suggested that an economy with systemic significance has a duty to serve as a responsible global stakeholder, rather than simply a 'free rider' on the system. Another participant questioned whether ineffective political and institutional coherence alone was impeding Europe's collective political effectiveness, or whether the influence of private interests was at play, as evident in the Basel III negotiations. Mr. Lombardi conceded that a more consolidated institutional set-up would not be guaranteed to eliminate regulatory capture; however, it would at least serve to dilute the influence of any given national or private interest.

One participant observed that the U.S.'s domestic political challenges and the global spillovers of its policymaking may indicate that a single, dominant global leader is undesirable in comparison to leadership by sufficiently like-minded, responsible and communicative actors. Another concurred that in the multipolar world of the 21st Century, stakeholders should lead by demonstrating an ability to balance the tension between sovereignty and collective action, pushing for multilateralism that is more than the sum of its parts. To this end, a consensus emerged that while Europe should not pursue 'benevolent dictatorship' over the global order, it is still important for any large, systemically significant stakeholders to be equipped with the tools for effective global influence and responsibility. This gave rise to the question of whether the EU should occupy a single chair on the IMF Executive Board. Although this was seen by some as something formally appropriate and perhaps desirable, it was argued that the persistent incompleteness exhibited by the EU demonstrates an unreadiness to pool representation in the Fund context – despite the fact that these countries often acting together in decision-making for governance purposes. In concluding the session, it was observed that European leadership of the global economy is practically and normatively complex, and the implications of it may not yet be fully understood by those within the Eurozone as well as those outside of it.

The Importance of IMF Quota Reform

The global financial crisis and its aftermath has highlighted the crucial role that the IMF must play in the international financial architecture; at the same time, it has revealed the deep and complex challenges posed by the shifting global economic order – including for the surveillance task of the IMF – and the long-standing weaknesses in the Fund's governance structures. The difficulty in addressing these weaknesses is manifest in the ongoing debate over quota formula reform and the continued delay in the implementation of the 2010 quota and governance reforms.

The impetus for reform

Given the profound and direct influence of the quota formula on governance arrangements within the Fund, the importance of reform was one of the unifying themes of the discussion. Notwithstanding the fact that the formula is often seen to be arcane and technical in nature, it was agreed that discussions of its reform are not independent of broader considerations of mandate, voice and representation within the institution. For this reason, a number of panellists argued that the quota formula represents an important litmus test of the multilateral spirit and character of the Fund, and, more broadly, of its legitimacy and effectiveness.

On the other hand, it was noted that legitimacy can take a number of forms. One panellist suggested that consensus-based decision-making imbues a high degree of legitimacy on the Fund's operations. Given that most IMF Executive Board and Board of Governors decisions are undertaken in such a manner, it could be concluded that there is not, in fact, a legitimacy problem in the Fund.

History of reform efforts

Quota reform has proven to be a complex and controversial process. It requires broad political support and widespread agreement across actors and groups with diverse economic characteristics and country interests – a challenge under any circumstances, but even more so given the global financial decision-making influence at stake. This has been reflected in the history of quota reform, which has been limited in extent and scope.

Over the past two decades, fundamental shifts have taken place in the global economy. EMDCs have doubled their share of global output, and are now the primary drivers of growth and trade. Despite these trends, the role of EMDCs in IMF governance arrangements has not proportionately increased. The Monterrey Consensus of 2002 recognized the importance of governance adjustments and affirmed that the IMF and World Bank would “continue to enhance participation of all developing countries and countries with economies in transition in their decision-making”.

However, subsequent quota and voting share shifts within the Fund have failed to reflect this agreement. Prior to 2006, quota shifts were small in nature, with 65% of the adjustments being equiproportional. Ad hoc increases in 2006 and 2008 shifted the balance of shares in favour of a limited number of countries, with some of the attendant losses of voting shares being ameliorated by increases in basic votes, which benefitted smaller countries. Revisions to the quota formula itself took place in both 2008 and 2010, in order to address existing deficiencies. A broad package of governance reforms was also agreed to in 2010.

While the cumulative impact of quota adjustments since 2006 has brought about a bigger shift towards EMDCs than in the past, there are three main deficiencies with the outcome. First, the overall shift in quotas to EMDCs as a whole was relatively modest. Second, a big price for this adjustment was paid by other EMDCs. Finally, as far as quota shares are concerned, the poorest countries, especially Sub-Saharan Africa, paid the highest cost. At the same time, limitations also remain at the core of the quota formula itself.

The way forward

Against this backdrop, the current reform process is even more critical. Yet, the reforms agreed to in 2010 remain unimplemented and the related Board realignment to enhance the voice and representation of EMDCs has not been achieved. Promised agreement for comprehensive quota review in 2013 did not come to fruition, and the deadline for the completion of the 15th General Review of Quotas is unlikely to be met. These failures not only reflect poorly on the Fund's governance, they also undermine its effectiveness and legitimacy as the safeguard of global financial stability. Overcoming this precarious stalemate will require, first and foremost, the implementation of the 2010 reforms, which have been ratified by most countries, including most advanced economies. It will also require concerted governance reform efforts, starting with meaningful resolution of the fundamental weaknesses in the quota formula. In order to achieve this, it was contended by some that Europe will need to play a key role, given that it is the only region with the space to accommodate the necessary shifts in quotas to reflect the global economic transformation. Conversely, it was suggested that reforms must be based on the mandate of the Fund and interests of all its members, rather than a specific group, particularly given the fact that there are almost as many emerging markets as advanced countries in Europe.

There was also a difference of opinion amongst panellists regarding the extent to which Europe has obstructed efforts thus far to meaningfully resolve the Fund's quota and governance debates. On the one hand, it was argued that European members have made a concerted effort to maintain decision-making influence incommensurate to their role in the global economy. On the other hand, it was contended that global economic governance is not as far out of line with reality as

has been suggested, and there has been a substantial shift towards EMDCs in recent years, not only in quotas but in IMF management positions and the selection of IMFC chairpersons from EMDCs as well as through the growing importance of the G-20. Attention was also drawn to the repeated decisions on the part of many advanced economies to forego quota increases in order to amplify the shifts towards EMDCs, along with the commitment of advanced European countries to give up two seats on the IMF Executive Board.

Political economy considerations

Notwithstanding the role played by Europe in reform efforts to date, it was widely agreed that political economy issues are non-negligible going forward. Governance reform serves to strengthen the Fund, which benefits the wider global community of its members. However, for some – particularly European countries – the individual costs of reform are far more significant than the collective gains. Giving away relative power to reinforce the IMF is thus inherently complicated by domestic political considerations. The disjuncture between the exigencies of national politics and the requirements of global cooperation poses an incentivisation challenge, which has contributed to the current state of impasse in reform efforts. Resolving this multilateral deadlock will require compromise, fuelled to some extent by evolution of institutionalised norms in national political arenas. Though this process will be difficult, it is critical in order to achieve the equitable governance arrangements necessary for the Fund's credibility and legitimacy as a lender as well as its trustworthiness as a supervisor of the world economy. In this regard, it was suggested that the relevance and centrality of the IMF was far from assured. If underrepresented countries do not feel ownership of the IMF, they might continue to build up reserves and intensify efforts to create and strengthen regional, bilateral and plurilateral financial arrangements, effectively diminishing the importance of the Fund as a multilateral reserve pool.

Discussion

During the ensuing discussion amongst participants, the issues of reform and realignment were prominent, particularly vis-à-vis Europe's role in accommodating such. It was argued that, in the absence of streamlined representation for the Eurozone and concessions on quota reform, the Fund's governance structures will be undermined. However, others noted that reform is often a zero sum game, with preservation of the status quo being in the short-term political interest of European countries. One participant suggested that the reluctance to concede may stem from uncertainty surrounding the consequences of a shift in influence towards a group of countries that have not articulated a clear vision for governance or precedent for the assumption of responsibility. Another discussant responded that exhibiting responsibility is as important as gaining a seat at the table; still, it is necessary to be patient and recognize that responsibility comes with experience and learning. According to another participant, it is not possible to predict the outcome of concessions to reform on the part of Europe; what is possible, however, is the understanding that the status quo is not sustainable. For that reason alone, action is warranted.

One participant observed that the issues of quota and governance reform have been discussed ad infinitum, and suggested that the way forward should include deeper and more politically-oriented analysis about practical steps that can be taken to address the underlying reluctance for resolution. One of the speakers noted that questions of incentives are inherently challenging when key stakeholders are not acting as leaders in the reform process. Another pointed out that many key elements of reform have been finitely determined from a practical perspective – the discussions over small details thus continue because the only remaining space for realizing achievements is on the margins.

The Role for the Fund and Regional Financing Arrangements in Macroeconomic Surveillance, Policy Coordination and Conditionality

The financial crisis profoundly undermined the stability of the international financial system and demonstrated the critical need for crisis prevention and resolution mechanisms. Global financial

safety nets, in the form of bilateral, regional and multilateral arrangements (as well as self-insurance) serve such a purpose. While important advances were made towards strengthening such instruments during and immediately after the crisis, this impetus has somewhat diminished in the current, more stable economic climate. The speakers of the third session provided insight into ongoing challenges and the implications of a tendency towards regionalism.

The origins of the global financial safety net

Profound structural changes have taken place in the global economy in recent decades. These changes have occurred against a backdrop of substantial international financial and monetary system difficulties. With deepening interconnectedness between most countries – both at the financial system level and amongst real economies – crises emanating from systemically important regions and countries can have rapid global impacts. Yet, as global financial stability has become manifestly more critical, so too has it become more difficult to achieve.

Prior to the crisis, the IMF's influence as a stakeholder of international financial architecture was diminishing, partly due to growing dissatisfaction amongst members and the rise of alternative regional arrangements as well as the sharp decline in IMF lending due to favourable global circumstances. The advent of the crisis, however, served to trigger soaring demand for IMF support, and the institution demonstrated quick action, increased lending capacity, new lending instruments and enhanced political capital. The combination of these factors enabled the Fund to play a critical role in preserving the stability of the international financial system. At the same time, the role of regional financing arrangements (RFAs) and bilateral swap arrangements in the global financial safety net architecture grew – a trend that began before the crisis.

The role of the IMF

The crisis demonstrated the potential for and dangers of systemic risk in a world of increasingly interconnected economies. Such risk creates demand for systemic risk mitigation solutions, which has given rise to the multilayered structure of the global financial safety net (GFSN). The IMF has a central role to play in this structure, including through facilitating interaction with various RFAs. However, the diversity of such arrangements makes Fund-RFA engagement challenging. There is limited experience on which to draw, and coordination is complex, and time-consuming. Nonetheless, if the costs can be minimized, and the benefits leveraged, there is significant potential for cooperation, complementarity, knowledge sharing, increased firepower and enhanced global financial stability. Looking ahead, a fine-tuning of the Fund's flexible modalities of engagement, in accordance with the mandate and strengths of the IMF and of each RFA, will be the optimal means of deepening interaction between the IMF and the various pillars of the GFSN. Attention was also drawn to the IMF's role in global policy coordination to address systemic risk, particularly vis-à-vis the G-20 Mutual Assessment Process (MAP). While the MAP holds much promise as an action-oriented and peer-led vehicle to foster surveillance and greater coordination, it must guard against losing momentum and focus now that the crisis seems to have abated and policy priorities have become more diffuse. The Fund can support the MAP process by supporting the development of a shared diagnosis and peer review. Through these efforts, among others, the IMF can play a crucial part in enhancing the preparedness of the international financial architecture to cope with future crises.

Regional financing arrangements

There was comprehensive discussion of the evolution and value-added of regional financing arrangements. While the origins of these instruments pre-date the financial crisis, the push towards regionalism rapidly escalated in the crisis' aftermath. Despite their growing role in the international financial architecture, RFAs are heterogeneous and there is limited understanding of the varying scopes and specifications. From an Asian perspective, the Chiang Mai Initiative Multilateralisation (CMIM) and its analytical support and surveillance arm, AMRO, served as an interesting example. The origins of this mechanism began with the establishment of a network of currency swap agreements by ASEAN +3 economies under the Chiang Mai Initiative in 2000. This initiative was expanded over

subsequent years, leading to multilateralisation in 2010. The CMIM is currently US\$240bn in size, though each member can currently only access support of up to 30% of its agreed maximum without being required to submit to IMF surveillance. AMRO was created in 2011 to provide analytical support and independent surveillance for the CMIM, so as to enhance its readiness. Given the IMF's expertise in such functions and AMRO's relatively limited capacity in comparison to the IMF, there has been a gradual move towards cooperation between the two bodies. Cooperation to-date has involved the sharing of information as well as analytical skills and expertise. There is also scope for increased engagement in a number of other areas, some of which are currently being explored; however, ASEAN+3 economies have taken a cautious approach to enhanced interaction. While coordination and collective action amongst the IMF and RFAs is favoured for crisis prevention and resolution from a global institutional perspective, the same cannot be said for the ASEAN+3 economies, which view it as a means to enhance internal capacity building and visibility. As such, engagement going forward will likely be characterized by incrementalism and maintenance of policy independence on the part of the region.

Persistent holes in the safety net

Notwithstanding the regional and global developments, the existing architecture remains complex and fragmented, and the path ahead is unclear. The Fund's legitimacy and credibility continues to be undermined by antiquated governance arrangements, and a clear plan for its cooperation with RFAs is absent. From a regional perspective, the potential for European arrangements to become independent of the Fund may have a significant signalling effect for other RFAs. Arrangements in Asia and amongst the BRICS are not yet fully functional, and the extent to which they could be prior to the next crisis is questionable. Additionally, current lending volumes are too small, not only in the Fund but amongst RFAs. Thus, holes in the global financial safety net persist; meanwhile, the sense of urgency to fill them is lacking. Insufficient action is being taken, given the significant vulnerabilities in the global economy, and it is not apparent whether the global architecture is prepared for another crisis. With instability anticipated in association with the exit from unconventional monetary policies in advanced economies, this question may be answered sooner rather than later.

Discussion

In the subsequent discussion amongst participants, it was pointed out that determining how to structure the modalities of cooperation envisaged amongst financial arrangements first requires a better understanding of the considerable differences of the various RFAs. For example, the CMIM – a multilateral agreement with a formal, strong IMF link – differs from the ESM – an intergovernmental organization that supports a currency union – and FLAR – an RFA without formal conditionality or G-20 members. To this end, taxonomising those areas in which cooperation between the IMF and RFAs would be beneficial, those issues on which cooperation is neither desirable nor necessary, and those activities that the RFAs cannot do without jeopardizing global financial stability, could provide a useful mechanisms for guiding future collaboration. Other participants agreed that delineating the comparative advantages of various arrangements could be valuable and serve to enhance complementarities.

Discussion then moved to the issue of whether the rise of regionalism in financing arrangements and potential for fragmentation could undermine member commitment to the Fund, insofar as the institution is ultimately responsible for global financial stability. It was posited that, in the future, the global financing architecture will likely be comprised of a mosaic of different instruments and institutions; there will remain, however, good arguments for a global lender and safety net that provides broader pooling opportunities, possesses a strong capacity to undertake and enforce surveillance, and can exhibit positive signalling behaviour in providing assistance to countries in difficulty. Other participants emphasized the numerous advantages of RFAs as complements to global arrangements, particularly by facilitating constructive regional engagement, fostering experience sharing and providing additional or alternative market reassurance.

Nevertheless, it was contended that finding the right balance for collaboration will be an ongoing challenge that is imperative to continue navigating.

The Future for Europe and Emerging Economies in Global Economic Governance

The conference's final session revolved around the overarching issue of global economic governance and its implications for Europe and emerging economies. A number of different perspectives were articulated on the extent to which the current context provides a moment of opportunity or challenge for the global economic community, particularly vis-à-vis the pursuit of meaningful multilateral cooperation.

The importance of the IMF

It was widely agreed that a robust global economic governance framework requires a legitimate, well-functioning IMF. This is in the interests of all its members, especially the low-income countries that are relatively disenfranchised in global economic decision-making and most negatively impacted by systemic failures and spillovers. The IMF, though imperfect, is uniquely placed to tackle global crises and provide a collective voice. However, its governance weaknesses must be addressed, particularly by way of equitable quota formula reform. At the same time, shifts in quotas will only have a meaningful impact when large EMDCs, as principle beneficiaries, step up and accept new responsibilities, as is expected of those who play a leadership role in the global institutional order.

The failure to improve the Fund's governance through the implementation the 2010 package of IMF reforms has undermined more than the Fund's credibility: it has also undermined the climate of trust and implicit social contract stipulated by the G-20 members when the forum was elevated during the financial crisis. For this reason, IMF reform is integral to the wider global economy governance architecture. Failure to fulfil this task will provide impetus for increased regionalism and fragmentation – not because such groupings and arrangements are prima facie more effective, but because it will provide a means of compensating for the lack of critical and long-overdue evolution of multilateral institutions.

Balancing effectiveness and legitimacy

Discussion also centred on the difficult balancing act between institutional effectiveness and legitimacy in global economic governance in the context of an evolving global economy. Since the financial crisis, an institutional evolution in the global governance architecture has taken place: the G-20 has been elevated to the Leaders' level, the IMF's role expanded, financial facilities and safety nets developed, and the importance of central banks increased. This was accompanied by a growing preference for political discussion, technocracy and regulatory solutions at both a national and international level. These shifts have given rise to the question of whether and how the key pillars of governance – legitimacy, accountability and inclusion – can be achieved in the new global landscape without undermining effectiveness.

It was argued that the more representative multilaterals such as the IMF require increased political competency and influence in addition to greater accountability. At the same time, increasing multipolarity and dispersion of economic power will likely have an obstructionist effect on policy coherence. Conversely, smaller and more effective political groups such as the G-20 lack legitimacy and an ability to adopt or enforce binding decisions. Yet, the G-20 remains the only systemic forum between key emerging and advanced economies, providing a venue for political candour and is structurally embedded within the international financial institutions. This enhances the G-20's value-added, especially in times of crisis when unprecedented situations arise and rapid action is required.

Balancing the competing objectives of global governance will be a challenge, the resolution of which will be determined by the priorities and mandates of specific institutions. While different courses of action were discussed, one panellist suggested that a potential solution could involve merging the roles of the IMFC and G-20. A more political role for the former would capitalize on its democratic legitimacy while facilitating decision-making at the Ministerial level, with benefits to the

work of the Fund specifically and global economic governance more broadly. However, it was pointed out by some that this approach would not be without challenges; indeed, it would require a revision of the Fund's voting rules, a consolidation of European decision-making influence, introduction of stronger, non-national accountability mechanisms and a strengthened sense of shared values and trust.

Regardless of the form it may take, it was widely accepted that adaptation is a necessary precondition for genuine multilateralism, and international institutions must meet the higher standards of legitimacy in order to play effective roles. Nonetheless, the balance between these principles of governance involves a trade-off. Strong, substantive global leadership requires political decision-making at the highest level, but this cannot come at the expense of democratic legitimacy. Finding an equitable, effective medium is not simple, but the costs of inaction go beyond any individual institution to the broader governance architecture and evolving, yet fragile, global economic order.

Managing the transition to new global economic realities

Though it was widely accepted that the challenges of collective action are not intractable, one panellist offered a more sobering view of the barriers to global cooperation. It was argued that Europe's 'declining' influence in the global economic order provides an incentive problem vis-à-vis multilateral reform that is satisfactory to all parties. This is evident in European resistance to the prospect of reduced decision-making influence in the IMF or consolidated representation on the Executive Board. There are advantages to such a course of action, insofar as it would demonstrate enlightened European leadership, would be received favourably by other countries, and would provide for increased accountability of larger emerging market economies. However, the fragmentation of macroeconomic loyalties within the Eurozone, together with the politically challenging act of relinquishing national power and influence, make this a controversial proposition for European members, as well as the region as a whole. A range of views were expressed regarding the likelihood and feasible solutions for overcoming this problem going forward.

Discussion

The final exchange amongst all participants took up the issues discussed by panellists. Disappointment was expressed regarding the absence of adaptation to new realities within existing global governance structures. It was also observed that the previously-seen trend towards open discussion and enlightened reform in global governance evident in the early post-crisis years has dissipated, reflected in the diminished ability of civil society stakeholders with a legitimate stake to have their voices heard. Another participant noted that, in a global economic climate far removed from the post-war hegemonic stability by which it was long characterized, achieving constructive outcomes amongst divergent stakeholders requires a degree of realism and an abundance of patience. Democratizing the system, recognizing the constraints discussed, is not a goal that should be abandoned. The IMF exemplifies this challenge. In the end, many agreed that the solution will depend on whether and to what extent Europe is prepared to make space for the representation and necessary influence of EMDCs.

Conclusion

Notwithstanding the divergence of perspectives presented throughout the conference and the lack of clear consensus on many controversial matters, extensive and constructive dialogue took place on topics of significance to the global economic community broadly, and key stakeholders specifically. A number of central issues emerged related to the evolution of global economic governance, the stability of the financial architecture, the role and reform of the IMF, and the requirements of multilateralism that balances effectiveness, legitimacy and disparate interests. The content of the seminar will provide ample material to move the discussion forward in wider circles, in the hope of coming closer to a balanced resolution to longstanding challenges.