# Still the rich world's viceroy

## If the IMF wants to reform itself, why not try democracy?

The glacier has begun to creak. In the world's most powerful dictatorship, we detect the merest hint of a thaw. I am not talking about China, or Uzbekistan, Burma or North Korea. This state runs no torture chambers or labour camps. No one is executed, though plenty starve to death as a result of its policies. The unhurried perestroika is taking place in Washington, in the offices of the International Monetary Fund.

Like most concessions made by dictatorial regimes, the reforms seem designed not to catalyse further change, but to prevent it. By slightly increasing the shares (and therefore the voting powers) of China, South Korea, Mexico and Turkey, the regime hopes to buy off the most powerful rebel warlords, while keeping the mob at bay. It has even thrown a few coppers from the balcony, for the great unwashed to scuffle over. But no one – except the leaders of the rich nations and the leader writers of just about every newspaper in the rich world – could regard this as an adequate response to its problems.

The Fund is a body with 184 members. It is run by seven of them – the US, Japan, Germany, the UK, France, Canada and Italy. These happen to be the seven countries which (with Russia) promised to save the world at the G8 meeting in 2005. The junta sustains its control by insisting that each dollar buys a vote. The bigger a country's financial quota, the more say it has over the running of the Fund. This means that the IMF is run by the countries which are least affected by its policies.

A major decision requires 85% of the vote, which ensures that the US, with 17%, has a veto over its substantial business. The UK, Germany, France and Japan have 22% between them, and each has a permanent seat on the board. By a weird arrangement permitting rich nations to speak on behalf of the poor, Canada and Italy have effective control over a further 8%. The other European countries are also remarkably powerful: Belgium, for example, has a direct entitlement to 2.1%, and indirect control over 5.1% of the vote: over twice the allocation of India or Brazil. Europe, Japan, Canada and the US wield a total of 63%. The 80 poorest countries, by contrast, have 10% between them.

These quotas no longer even reflect real financial contributions to the running of the Fund: it now obtains much of its capital from loan repayments by its vassal states. But the G7 nations still behave as if it belongs to them. They decide who runs it (the managing director is always a European and his deputy always an American) and how the money is spent. You begin to wonder why the developing countries bother to turn up.

In principle, this power is supposed to be balanced by something called the "basic vote" – 250 shares (entitling them to $25m-worth of votes) are allocated to every member. But while the value of the rich countries' quotas has risen since the IMF was founded in 1944, the value of the basic votes has not. It has fallen from 11.3% of the total allocation to 2.1%. The leaked paper passed to me by an excellent organisation called the Bretton Woods Project (everything we know about the IMF has to be leaked) shows that the Fund intends to democratise itself by "at least doubling" the basic vote. That sorts it all out then – the 80 poorest countries will be able to claim, between them, another 0.9%. Even this pathetic concession was granted only after the African members took a political risk by publicly opposing the Fund's proposals. Doubtless the US government is currently reviewing their trading status.

All this is compounded by an internal political process which looks as if it was contrived in Pyongyang, not Washington. There are no formal votes, just a "consensus process" controlled by the Dear Leaders of the G7. The decisions taken by each member state cannot be revealed to the public. Nor can the transcripts of the board's meetings, or the "working papers" on which it bases its internal reforms. Even reports by the Fund's ombudsman – the so-called "independent evaluation office" – are censored by the management, and their conclusions changed to shift the blame for the Fund's failures to its client states. Needless to say, the IMF insists that the states it lends to must commit themselves to "good governance" and "transparency" if they are to receive its money.

None of this would matter so much if it had stuck to its original mandate of stabilising the international monetary system. But after the collapse of the Bretton Woods Agreement in 1971, the IMF more or less lost its mission to maintain exchange rates, and began to look for a new role. As a paper by the law professor Daniel Bradlow shows, when it amended its articles of association in 1978 they were so loosely drafted as to grant the IMF permission to interfere in almost any aspect of a country's governance. It lost its influence over the economic policies of the G7, and became instead the rich world's viceroy, controlling the poorer nations at its behest. It began to micro-manage their economies without reference to the people or even their governments. Since then, no rich country has required its services, and few poor countries have been able to shake it off.

This casts an interesting light on the decision – to be endorsed at the IMF's meeting in Singapore next week – to enhance the quota for the four middle-income countries. After the Fund "helped" the struggling economies of East and South East Asia in 1997, by laying waste to them on behalf of US hedge funds and investment companies, the nations of that region decided that they would never allow themselves to fall prey to it again. They began indemnifying themselves against its tender loving care by building up their own reserves of capital. Now, just as China and South Korea have ensured that they will never again require the Fund's services, they have been granted more power to decide how it operates. In other words they are deemed fit to govern when – like the G7 - they can exercise power without reaping the consequences. The smaller your stake in the outcome, the greater your vote.

None of this seems to cause any difficulties to the gatekeepers of mainstream opinion. On Saturday a leading article in the Washington Post observed that "to be legitimate, multilateral institutions must reflect the global distribution of power as it is now, not as it was when these institutions were set up more than half a century ago." What a fascinating definition that is, and how wrong we must have been to imagine that legitimacy requires democracy. Hurrah for corporatism – it didn't die with Mussolini after all.

I am among those who believe that the IMF is and always will be the wrong body – inherently flawed and constitutionally unjust. But if its leaders and supporters are to persuade us that it might, one day, have a legitimate role in running the world's financial systems, they will have to do a hell of a lot better than this.

*George Monbiot's book **Heat: How to Stop the Planet Burning** is published this month by Penguin.*