

Study Calls for New Agenda-Setting Council to Replace G7

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Written by a group that combines extensive practical experience with analytical rigour, the sixth title in the *Geneva Reports on the World Economy* series looks into the arrangements that drive international economic and financial cooperation. The winds of change are powerful. The set of key players has expanded, including several emerging economic and financial giants that have long been sidelined. A decade ago, some of today's systemically important currencies either did not exist – the euro – or were insignificant – the renminbi and other Asian currencies and perhaps soon, the Brazilian real and the Indian rupee. Cooperation arrangements have been driven by pragmatism and effectiveness. They have worked reasonably well for a long time, but the need to combine these considerations with legitimacy, representativeness, and accountability is now growing. This challenge is vividly illustrated by discontent with the governance of the IMF and growing resistance to the agenda-setting role of the G7, which is impairing its effectiveness. It is no longer sufficient for the G7 countries to agree among themselves on managing balance-of-payments adjustment. Three of the G7 countries, France, Germany and Italy, are members of the euro area yet cannot speak for it, and another G7 country the United Kingdom, can no longer be regarded as a key currency country. Also, one key currency country, China is not a member of the G7.

The authors argue that the status quo is increasingly untenable and make a number of proposals to reform the process for dealing with the main economic and financial issues. The authors of '**International Economic and Financial Cooperation: New Issues, New Actors, New Responses**' recommend:

- **Establishing a new grouping, the G4, to bring together the key currency countries** (the United States, the euro zone, Japan and China) to play the leadership role in dealing with exchange rate and balance of payment adjustment.
- **Creating a new agenda-setting body for the international financial system.** The G7 does not include some of the key players, but the G20, with 40 ministers and central bank governors around its table, is too large to be effective. A new body, provisionally described as the Council for International and Economic Cooperation (CIFEC), should serve as the agenda setting body, providing strategic direction for the functioning and development of the international financial system and exercising informal oversight over the various multilateral institutions and forums involved in international economic

cooperation. Effectiveness requires that it be responsive to the needs and concerns of the whole international community. It is suggested that the CIFEC have no more than 15 member countries, represented by their finance ministers. The Secretary General of the UN, the Managing Director of the IMF, the President of the World Bank and the Director General of the WTO would be invited to its meetings.

- **Strengthening the institutional structure of the IMF.** Though the Fund has been subjected to criticism, it will undoubtedly continue to play a central role in international financial cooperation in the years to come. It has been able to reinvent itself several times – after the end of the Bretton Woods system, for example, and after the Asian crisis. It now needs to go through a new phase of re-engineering. This Report proposes that the role of the Executive Board should be upgraded and the representation of the EU should be rationalized.

The role of the Executive Board has been slowly undermined by activities elsewhere, including those of the G7. Furthermore, the freedom of action of Executive Directors has declined as a result of new information technologies. One solution is for the senior official dealing with Fund issues in a country's capital to serve as that country's Executive Director. Furthermore, the composition of the Board should be brought into better alignment with the relative economic importance of individual IMF members. The advent of the euro presents an opportunity to rationalize the situation. The aim ought to be to consolidate, perhaps in steps, the representation of the EU into two constituencies: one for the members of the euro area and one for the rest of the EU countries.

- **A review of existing institutions, organizations, groups and clubs.** There is a plethora of formal and informal bodies, with overlapping tasks. Furthermore, several bodies were created originally to deal with issues that no longer exist. An 'Independent Wise Persons Review Group' should therefore be asked to examine the situation and propose ways to streamline the operations of these bodies, possibly recommending that some should be disbanded.

Notes for Editors:

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