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Title	<i>History of Key Institutions IMF/World Bank/G8/G20 - What Why When?</i>
Description	Ngaire Woods, Jeni Whalen and Christina Ward discuss some of the key institutions and groups who are responding to the financial crisis.
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Interviewer So what are some of the key institutions and groups that have reacted to the crisis?

Respondent Well at the moment what's very interesting is to watch the emerging economies coming out of the global financial crisis. Countries like China, like India, like Brazil, like Mexico, saying after two decades of thinking that we should listen to the United States and Europe in terms of what kinds of institutions we should build. Actually we can now see that our institutions have done somewhat better than theirs in staving off a financial crisis.

So a Brazilian senior policy maker was saying to me a few weeks ago that they should now be exporting their institutions to the north and so I think in a way we are watching the political debate about how governments organise themselves almost begin to reverse in the wake of the crisis.

Interviewer How is that power shift playing out in the institutions? Are they responding to it, are we seeing Brazil, China, India being successful in lobbying for exporting their models or are we seeing a push back from Europe and America?

Respondent That's a great question because what we have at the core of the world economy are institutions, international institutions like the IMF and the World Bank and the World Trade Organisation, which were created by a sort of group of old powers, Europe and the United States and Japan right at the corner stone of them. And those countries have a habit of running those institutions. And through those institutions running the world economy and those institutions have been very slow to change. So one of the things we are seeing in this economic crisis is a sudden recognition that these global agencies have to catch up. They have to update themselves but it is proving extremely difficult.

Europe and the United States and Japan simply don't want to give up control. They are sitting at the steering wheel and they want to stay there. They want China and India and Russia and South Africa and Brazil to get in the back seat and drive with them, but they want to keep their hands on the steering wheel. For the first time we are seeing China, Brazil and India saying "No. We are not going to travel in that car with you unless we get our turn at the steering wheel as well. Unless we get to decide where this institution is going and what it is doing."

So we are at quite a big moment and in my view it can go one of two ways. Either the institutions will transform very quickly and they they will remain effective international institutions or they'll fail and Japan, The United States, The European Union will stay firmly clinging to a steering

wheel of an institution which is less and less relevant and has less and less capability to manage globalisation and that's the pivot point I think we are at at the moment.

Interviewer So you have been talking about the WTO, the IMF and the World Bank how did these institutions come about to begin with?

Respondent They came about at the end of the Second World War for a very specific reason and that's that the great depression of the 1930's taught governments that they had to cooperate at the international level. Because if they don't cooperate every country takes policies which drags their neighbours down and in the end drags them down. That was the lesson of the great depression is that in the world economy every individual country needs to have an exchange rate which they don't muck around with to try to destroy their neighbours and improve their own lot. If they do they drag themselves and everybody else down and you get the great depression.

You need trade rules so that countries don't cheat you know and try and export more and import less. You need rules and a capability to lend countries in an emergency position money so that they don't resort to using trade barriers and competitive exchange rate devaluations in order to pull themselves out of a hole. In other words it is what in political science we call a collective action problem, if you leave countries to do their own thing, they'll each do something which ends up damaging themselves and damaging their neighbours.

You need countries to act collectively in a crisis to keep trading with one another, to keep their exchange rate stable, to borrow from one another in a crisis rather than using measures which are detrimental to all. To get that kind of cooperation you need international institutions.

So at the end of the Second World War the key policy makers and mainly it was the United States and Britain, got together and created the IMF and The World Bank. The IMF turned run a system of exchange rates and emergency loans and The World Bank to make sure that countries, even in the most far flung corners of the world would have a chance to participate in global markets.

So you saw The World Bank and IMF created then and along side them an agreement on trade that countries would agree to abide by the rules on trade, that they wouldn't try and cheat and steal a march on one another and those were the three corner stones of these global economic institutions which have helped manage globalisation.

Interviewer So if the major powers are reliant on other countries to cooperate with them as you were explaining, why is it that the major powers took such strong control of the steering wheels of these organisations?

Respondent The United States came out of the Second World War as the world's largest creditor and it had to be in a way the corner stone of these new institutions. That's where the money was, so you had to create the IMF and The World Bank. The first thing they needed if they were going to be credible organisations with credible finances is the backing of the United States and the United States exacted a price for that. It said "Okay we'll back these institutions but we are going to make sure that they are based in Washington D.C. next to our government, that we have a veto power, that we each get to choose who head's up these organisations and who the senior management team is and we get to set the rules on everyone in the organisation working in English" and of course what that's meant is that a very large number of the staff in each organisation are trained in the United States or perhaps in Britain.

So in other words the United States has a high degree of control over both institutions and that was because when they were founded the United States was the world's largest creditors and in the position to do it.

What's changed today is the United States is now the world's largest debtor and it is of course China and other countries that have become the world's major creditors and yet the institutions remain

locked into Washington D.C. and the United States remains the most powerful and dominant country within them.

Interviewer And [[?? 0:07:29]] of the rise of the G7 and the G20, what are they providing that these other institutions don't?

Respondent In the 1970's when the world was faced with an oil shock and a different global economic crisis, the IMF and The World Bank were seen as rather cumbersome organisations within which to organise a response. So what we saw at the end of the 1970's was the seven most powerful industrialised countries, the G7 as they are called that's the United States, Britain, Italy, Canada, Japan, Germany and France. We saw those seven countries, the G7 countries get together and start informally meeting to decide what the global economic agenda should be. What happened over the subsequent 20 years was that that G7 really did become the strategic decision making body in the IMF. It became the engine driving the IMF out of sight, nobody could see it, but it became the engine that drove the IMF that a small group that through regular telephone calls and meeting among themselves have decided what the IMF should do and how and when.

Interviewer Is the G20 just the G7 with more members?

Respondent Well the G7 started looking out of date ten years ago. In 1997 the world had another big financial crisis that began in East Asia and in trying to solve that crisis the G7 quite quickly realised that it was ludicrous to try and solve a crisis afflicting emerging economies without having any of them at the table. So the finance ministers of 20 countries, the G7 plus another 13 or so that they invited to the table were invited to come and take part in a group of finance ministers. And it is that same group of countries, ten years later, that President George Bush got together in November of 2008 at the leaders level. So he took that same grouping of 20 countries, the 20 largest economies in the world and said "Right the leaders of those 20 countries we are now going to pull together in a kind of G20 leaders summit" and that's where this new G20 came from.

What pundits are saying is that the existence of the G20 finally demonstrates that the G7 is an anachronism. We no longer need the G7 it is the wrong group of countries and the G20 will push it to one side.

I think we need to be careful of that argument because the G7 have a long habit of cooperation and coordination, they are closely networked with one another, they are used to picking up the telephone and talking to one another, they are continuing to do so the G7 finance deputies are continuing to meet, the G7 finance ministers are continuing to meet. That has an important implication for the G20, because it means that the G20 is a group within which there is a G7 which is quite coordinated and then there is the rest.

So for some it means that the G20 is nothing more than a wider consultation group from the G7, but I think that we are already seeing that change. We are seeing Brazil, Russia, India, China start actually formulating positions among themselves and come along to G20 meetings saying "Well hold on, here's our collective position." So the G20's proving a very interesting laboratory for watching this global shift in power and how it is going to work out in the different roles that countries play.

Interviewer Other than seats at the table, other than simply the inclusion of more members around in that negotiating group, have we seen any concrete outputs yet? Have we seen any substantive change or is it possible that this just ends up as a talking shop?

Respondent The first sign of the G20 not being a talking shop was quite a promising one. At their first summit they came up with an action plan and that's not usually, they came up with a very detailed action plan not just saying what they thought they would do which is what the G7 and G8's always done, but actually saying what and who should do each job. So they actually tasked

different international agencies with specific jobs. So that's quite a signal that the G20 could be a much more active agenda setter and implementer of global cooperation and positions.

That said on the issue of these institutions like the IMF, World Bank and WTO the G20 have not really pushed forward a reformed debate they've talked about it, they are continuing to talk about it. There are modest steps being made to rearrange voting power and shares, but there is nothing like the kind of transformation we might expect to see of these institutions if the G7 were to stop and ask "What would an institution have to look like if say Brazil or China were to believe that this was as much their institution as it was the institution of the United States?" that would transform and create a transformed vision of what they international institutions would look like.

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