

**Title:** Canada at the Bretton Woods Institutions  
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## **CANADA’S ENGAGEMENT AT THE BWIs**

From the International Monetary Fund (IMF) and World Bank’s inception at the Bretton Woods meeting in 1944, Canada has played an important go-between role in bridging competing interests and visions of the proposed institutions. Back then, Canada helped Maynard Keynes and Harry Dexter White, the lead British and American architects of the Bretton Woods Institutions (BWIs), to come to terms with and to better understand the other’s position.<sup>1</sup> Under the leadership of Canada’s first executive director and lead negotiator at the meetings, Louis Rasminski, Canada brought its own proposal for an ‘International Exchange Fund’ that helped mediate the positions of the two key post-war allies.<sup>2</sup>

For much of the early years of the BWIs, Ottawa was not engaged in the ‘low-politics’ of the IMF and the World Bank; demonstrated by Canada’s delegation of wide decision-making powers to its Executive Directors in Washington, DC.<sup>3</sup> Moreover, Canada did not always buy-in to IMF policy views. Most notably, Canada twice famously abandoned its fixed exchange rate regime in favour of a floating one, in contravention to Bretton Woods rules.<sup>4</sup> Then matters changed throughout the debt crisis of the 1980s and the structural adjustment period of the 1990s. Canada supported the ascending power and influence of the IMF and its prescriptions on developing countries.<sup>5</sup> Notably, Canada linked its foreign aid programmes to country compliance to Fund advice.

Canada took a more active role in BWI affairs, starting in 1995 when Canada hosted the G7 meeting in Halifax. High on the agenda of the summit was the role of rapid international capital flows in precipitating the unraveling of the Mexican Peso crisis and the question of how to better utilize the BWIs to prevent a repeat of such crises. Unlike its G7 partners, Canada and the United States both favoured increasing the IMF’s responsibility and influence over regulating international capital. With the most to lose as Mexico’s NAFTA partners, both Canada and the United States were also interested in shoring up Mexican reserves. Japan remained disinterested, but the Europeans, and most prominently the Germans, were skeptical of enhancing the role of the Fund. Ultimately, the G7 members agreed to a generous bailout of Mexico and of augmenting BWI finances, but stopped short of endorsing a stronger supervisory role for the IMF. Instead, the IMF would collect more information and data through its surveillance function and streamline procedures to dispense funds faster to stricken countries. Another, less prominent, issue on the

agenda of the Halifax summit was a UK proposal to increase Paris Club contributions for debt relief to heavily indebted poor countries by selling IMF gold reserves. Canada supported the UK proposal, but little was accomplished at the summit until the British successfully revived the proposal at the World Bank and IMF Executive Boards in 1996.

With the growing debate about systemic risks of financial contagion and the reform of the international financial architecture, particularly after the 1997-98 Asian crisis, Ottawa showed a greater degree of engagement in the BWIs. In particular, then Finance Minister Paul Martin was among many calling for a 'new international financial architecture' in his international speeches. Martin complained about the prominence of short-term capital flows in the international financial system and supported IMF management's proposals to bring in the private financial sector into sovereign debt restructuring proposals.

At the systemic level, Ottawa was like many other G7 capitals which had taken a stronger interest in the daily activities of the IMF and World Bank and had consequently delegated less authority to their Executive Directors.<sup>6</sup> In part, this was attributable to growing civil society pressures to account for taxpayers' money into the international financial institutions. Canada and its G7 partners also wanted to improve coordination to counter contagion-effects of potential international financial crises. At the domestic level, Ottawa had a renewed intellectual interest in playing a more engaged role in the BWIs. Most notable perhaps was former Bank of Canada Governor David Dodge's unprecedented attention to the future direction of the IMF, calling for a restriction of Fund lending and an increase in bilateral surveillance.<sup>7</sup> As Prime Minister and Finance Minister, Paul Martin's championship of the need for a G20, moreover, also raised Ottawa's interest in the BWIs.

Ottawa's increased engagement in BWI affairs over the past 15 years has led to a number of Canadian policy proposals and ideas. These have included enhancing organizational transparency, improving BWI administrative efficiency, promoting financial standstills, proposing policy monitoring initiatives, promoting debt relief for heavily indebted poor countries, and advocating in favour of enhanced surveillance. Recently, Canada has also been amenable to reducing its relative quota share in order to give emerging market economies more voice and representation at the Board-- something the overrepresented Europeans have been staunchly refusing. Canada has been less favourable to the idea, however, of increasing less developed countries' quota share at the Fund. Specifically, Finance Minister Jim Flaherty has pushed for having both gross domestic product and trade openness as prime variables in determining quota increases. Emphasis of these variables have tended to result in increases to emerging market economies' quotas, but diminished the prospective voice of low-income countries. Responding to both emerging market economies and low income countries' cries that the IMF is losing legitimacy and accountability to its members, high on the agenda of the BWIs and its member states today is the issue of how to reform both the IMF and the World Bank.

In recent years, the BWIs have been debating ways to redesign themselves to become more legitimate, relevant, and credible. At the 2009 London Summit of the G20, world leaders committed to enacting governance reforms to include reallocating quotas and votes and diversifying BWI governance and management. Unlike the United States and the European Union, Canada has been conservative on the issue of augmenting IMF resources. Nevertheless,

Canada committed \$10 billion at the G20; relatively smaller compared to the \$100 billion contributed by each of the United States, the EU, and the Japanese, but not trivial to say the least. Canada also maintained its traditional call for enhancing surveillance, but also proposed the idea of having governments respond to the IMF's bilateral surveillance reports. The later suggestion is supported by the United Kingdom and the EU more generally, but less welcomed by the United States and China who have both respectively skirted around IMF advice on fiscal deficits and currency exchange rates.<sup>8</sup> As a country with a relatively sound banking sector that has impressed world economic leaders during these tumultuous financial times, Canada has at the G20 been confidently proposing ideas to further enhance BWI effectiveness.

### **CANADA'S REPUTATION AT THE BWIs: A 'BRIDGING' MEMBER**

Canada has been able to champion its proposals and ideas at its prominent positions in the BWIs decision-making organs. Most notably, Canada has held an Executive Board seat throughout the history of both the IMF and the World Bank. Having an Executive Board seat is highly sought after by all of the 184 members at each institution. Of the 24 coveted seats at each of the Executive Boards of the IMF and World Bank, Canada chairs a seat that represents Ireland and 11 Caribbean states. In effect, constituents pool their quotas and votes to form a group that elects a country to lead as chair. Unlike other seats where constituents' quotes and votes are more evenly distributed, Canada has more than 60% of the collective quota and therefore has a semi-permanent seat at each of the BWI's boards.<sup>9</sup> Many constituencies are often conflict-ridden where member states are internally jockeying for political power or fighting to take over the chair and alternate chair position. In contrast, Canada has an opportune position with a constituency comprised of mostly English-speaking developing countries that are too weak to challenge Canadian dominance of the chair position. Ireland, the only other industrial country in the constituency, is also quite happy with its role as an alternate director- a number two position that the Irish would not have had in a European-led seat. This gives Canada a significant amount of concentrated power and legitimacy at the Boards, something that other chairs cannot always derive.

As an English-speaking nation with relatively close cultural and geographical proximity to the United States, Canada has some advantages in better understanding the workings of the International Monetary Fund and the World Bank and in understanding the Washington political climate in which the BWIs operate and maneuver. As part of the G7 and G20, Canada also plays a role in two influential steering committees: the International Monetary and Financial Committee which advises the IMF on broad systemic issues and the Development Committee which similarly advises the World Bank. Incidentally, Canada enjoys the unique vantage point of being on all of the regional development banks: the African Development Bank, the European Bank for Reconstruction and Development, the Asian Development Bank, and the Inter-American Development Bank. Without doubt there is a strong representation of Canada in key decision-making organs of the BWIs and in external bodies that play important advisory and cooperative roles with the BWIs. But, how has Canada been perceived; what is Canada's reputation at the BWIs?

Canada's reputation at the BWI boards has varied over time, but most importantly, it has also been perceived differently from country to country.<sup>10</sup> To the most powerful member of the

BWIs, the United States, the Canadians have always been a ‘useful bridge’. The United States sees Canada’s role as a helpful interlocutor between it and the conservative European governments that do not want to shore up BWI finances and that do not want to lend to countries that are financially strapped but are of geostrategic value. Consequently, the Americans often looked to the Canadians for support at the Executive Boards. While the BWIs use consensual voting and the United States maintains a veto power on key decisions at the boards, the Americans would elicit Canadian support to help spur a path of least resistance on potentially divisive proposals. When asked why the Americans resorted to seek help from the Canadians, a former US Executive Director noted that Canada was viewed as a ‘nice guy’ at the board and Canadian directors were generally well-skilled at emphasizing agreed positions while helpful in de-emphasizing controversies. So, Canadian directors were better able to put forth proposals with less political haggling than the Americans.

While the Americans thought Canada acted as a valuable mediator at the Executive Boards, a number of Executive Directors were then skeptical of the genuineness of Canadian proposals. As one IMF director from a developing country had noted, he often wondered whether Canadian proposals were originally American or Canadian initiatives. At times, many directors were suspicious that Canadian proposals were actually formulated in Washington. In another example, one European director suggested that Canada’s recent push for enhanced surveillance was actually “an American idea disguised as a Canadian idea; Canada was ‘doing the American’s ‘ugly bidding’.”<sup>11</sup> While this was far from the case, misperceptions were clearly there. This was more problematic during the Bush administration years, as many members of the board further resented American foreign economic policies and the administration’s overall sidelining of the BWIs. The World Bank’s Executive Board uproar against the continued presidency of Paul Wolfowitz- after an internal scandal over the contracting of his girlfriend- had exemplified the board’s greater frustrations with American foreign policies.

Developing countries generally had a favourable view of Canada and would often look to Canada to serve as a counterweight to American power at the IMF. Canadian executive directors would self-describe their reputation with borrowing countries as being “good listeners and globally literate,” an “honest broker,” and “neutral.”<sup>12</sup> The fact that Canada has a constituency of small developing countries, moreover, had raised others’ expectation that Canada would be a mediator. Consequently, Canadian executive directors found it counterproductive or difficult to heed to political pressure from Ottawa. Specifically, Canada’s membership in the G7 would in effect “tie our hands to toe the party line” and then limit Canadian effectiveness at mediating difficult north-south issues.<sup>13</sup> Canada’s ability to play the ‘go-between’ role was constrained by agreements made by G7 finance ministers outside the Fund. While Canadian directors felt constrained by group decisions at the G7, the flipside of this was that Canada could then often depend on the G7 members, but more specifically the United States, when it wanted allies to promote its initiatives and ideas. In fact, American directors would at times support Canadian initiatives because “they knew the Canadians wanted it”.<sup>14</sup> Consequently, this allowed Canada to play a more engaged role in the BWIs.

Canada’s good working relationship with like-minded states at the Board, particularly the United States, United Kingdom, Australia, and the Scandinavian group, would also help Canada push through its policy proposals. Specifically, on debt relief and development issues Canada has

tended to agree with the Nordics and Norwegians who also share a strong welfare tradition. Beyond Scandinavian countries, Canada has worked well with British directors on surveillance and on many other issues; Canada has also worked well with the Australians, as they have shared similar economic concerns and interests. Canada's role and support of the G20 has helped in its relations with the emerging market economies represented at the Board.

In conclusion, Canada's policy proposals and policy stances have not been earth-shattering ideas, but they have gained it added respect at the board and outside the board for its compromising stances. Therefore, Canada is often viewed as an engaged member of the BWIs that tries to bridge the views of systemically-important industrialized countries and of the developing countries.

## ENDNOTES

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- <sup>1</sup> Keating, Tom. 2001. *Canada and World Order: The Multilateralist Tradition in Canadian Foreign Policy*. Toronto: Oxford University Press, pp 48-51.
- <sup>2</sup> Canadian Wartime Information Board. 1943. *Tentative Draft Proposals of Canadian Experts for an International Exchange Union*, (June 9). pp. 1-19.
- <sup>3</sup> Momani, Bessma. 2008. "Canada's Role at the IMF Executive Board". Paper presented at the Canadian Political Science Association annual meeting. Vancouver, BC (5 June).
- <sup>4</sup> Helleiner, Eric. 2006. *Towards North American Monetary Union? The politics and history of Canada's exchange rate region*. Montreal: McGill-Queen's University Press.
- <sup>5</sup> Pratt, Cranford. 1985. "Canadian Policy Toward the International Monetary Fund: an attempt to define a position". *Canadian Journal of Development Studies*, 6 (1), 9-26.
- <sup>6</sup> Kenen, Peter B., Jeffrey R. Shafer, Nigel L. Wicks, and Charles Wyplosz. 2004. *The International Economic and Financial Cooperation: New Issues, New Actors, New Responses*. London: Center for Economic Policy Research, pp.99-100.
- <sup>7</sup> Dodge, David. 2006. "The Evolving International Monetary Order and the Need for an Evolving IMF". Lecture to the Woodrow Wilson School of Public and International Affairs, Princeton, New Jersey (March 20). <http://www.bankofcanada.ca/en/speeches/2006/sp06-6.html>;
- <sup>8</sup> See Bretton Woods Project. 2009. Country Positions for the London Summit. (1 April). [www.brettonwoodsproject.org](http://www.brettonwoodsproject.org)
- <sup>9</sup> Woods, Ngaire and Lombardi, Domenico. 2006. "Uneven Patterns of Governance: How Developing Countries Are Represented in the IMF" *Review of International Political Economy* 13, no.3 (August). pp. 480-515.
- <sup>10</sup> From 16 October 2007 to 29 May 2008, Momani conducted personal interviews with seven of Canada's former IMF Executive Directors, one of Canada's former World Bank Executive Directors, three Department of Finance staff, two Bank of Canada staff, two IMF staff, and with American, European, and non-Western IMF Executive Directors on the subject of IMF-Canadian relations. Much of the following arguments are developed on the basis of interview findings.
- <sup>11</sup> Based on an interview with a European Executive Director on 7 January 2008.
- <sup>12</sup> Based on an interview with an IMF Executive Director on morning of 16 October 2007 and on 18 April 2008.
- <sup>13</sup> Based on an interview with two senior Canadian Department of Finance officials on 25 April 2005.
- <sup>14</sup> Momani, Bessma. 2008.