EU Representation and the Governance of the International Monetary Fund

Géraldine Mahieu, Dirk Ooms, Stéphane Rottier*

Abstract : The introduction of the euro and closer co-ordination of economic policies in the European Union are fuelling a debate on Europe's representation in the international financial institutions. A single EU representation at the IMF would affect the balance of power in the institution through a fundamental reallocation of quotas and Executive Directors among its membership. A reduction in the number of European Executive Directors, in the total voting power of Europe and in its contribution to the Fund's general resources could go hand in hand with an increase in the Union's impact on IMF decision-making. Such a change would also weaken the co-operative nature of the Fund through a reduction of the number and impact of mixed constituencies.

Keywords : IMF Governance, EU representation, Balance of Power

---

* This article draws on a study of the authors for the Financial Stability Review 2004 of the National Bank of Belgium. The authors thank in particular Dirk Heremans, Peter Praet and Thierry Timmermans for their helpful comments. Dirk Ooms and Stéphane Rottier are staff members of the National Bank of Belgium. Géraldine Mahieu was at the time of the drafting of this article working for the National Bank of Belgium and is now working for the European Commission. The opinions expressed remain those of the authors and do not necessarily correspond to those of the European Commission.

1. Introduction and main issues

The introduction of the euro and the institutional strengthening of the co-ordination of economic policies in the European Union (EU) are fuelling a reflection on the representation of Europe in the international financial institutions. Both in Europe and elsewhere, calls are mounting for European position taking and representation in international fora to be streamlined, a process which could end in a single EU representation, as in the World Trade Organisation (WTO). The issue is – at least in the view of many current member states of the Union – a long - term objective.

In the light of the establishment of a single monetary policy, the question of a single external EU representation is of particular relevance with regard to the International Monetary Fund (IMF), which is at the core of the international financial system. Through its almost world-wide membership, the surveillance which it exerts over its members' policies, and the assistance and conditional emergency financing which it provides, the Fund is a major instrument contributing to macroeconomic and financial stability.

The establishment of a single EU representation would constitute an historical change in the IMF membership, and would raise major governance issues in various fields. While this article focuses on governance issues raised with regard to the IMF itself, it also touches upon "spill-over effects" for the governance of other international financial institutions and fora.

These issues have to be approached within the perspective of the ongoing, broad debate on the governance of the Fund. With the collapse of the Bretton Woods system of fixed exchange rates in the early seventies, the Fund had lost its core function with regard to balance of payments crises, and thereby also – in the eyes of many – its raison d'être. The institution has nevertheless come back to the foreground, in particular as an instrument for the prevention and resolution of financial crises. However, since the succession of crises in the nineties, which were primarily capital account driven, the effectiveness of the Fund's surveillance and its governance have been increasingly questioned. Basically, the Fund has been under criticism for being insufficiently transparent, independent and accountable[1]. The organisation was able to react positively to many of the reproaches made; the progresses realised with regard to transparency are illustrative in this field.

It follows from the analysis developed in this article that the creation of a single EU chair may affect two of the major controversies still in the forefront in this respect: excessive politicisation of the Fund's decision-making, and unbalanced representation of its members.

First, critics point to what is seen as the current disproportional influence over Fund decision-making of the Fund staff on the one hand, and of the Group of Seven (G7) on the other. The G7 countries are believed to bring into the IMF decision-making process their own geopolitical considerations, which can be at odds with sound governance of the institution. While many acknowledge that political considerations are difficult to discard when deciding whether or not to provide Fund financing, it is often stressed that the IMF's surveillance activities should be exerted in a more objective and independent way. Surveillance issues were at the core of the debates of the 2004 Annual Meetings. From the analysis below it follows that establishing a single EU chair may, on the one hand, provide a countervailing power for the perceived imbalances. On the other hand, it could also further exacerbate the trend towards polarisation in IMF governance, as the result could be a duopoly of big creditors at the head of the IMF, the ability of which to provide real leadership remains to be demonstrated. It will be further argued that the extent to which the EU will be willing and able to define a common external policy could be crucial in this respect.

A second criticism addressed to the IMF is the insufficient voice, both in terms of voting power and in terms of number of Executive Directors (EDs), given to emerging economies and developing countries, while industrialised countries, and Europe in particular, are deemed to benefit from

[1] See for instance De Gregorio et al. (1999).

excessive representation. In this respect, the establishment of a single EU chair could provide a window of opportunity for bringing the actual quotas in the Fund more in line with newly calculated quotas. The quota of the EU chair could indeed be set significantly below the sum of the actual quotas of the EU member states, and there might be a quite fundamental reallocation of quotas and EDs among the Fund membership. A single EU chair might involve the interesting paradox that a reduction in the number of European EDs, in the global voting power of Europe and in its contribution to the Fund's general resources could go hand in hand with an increase in the Union's impact on IMF decision-making.

A single EU chair will also affect the co-operative nature of the Fund. Originally, this nature was underpinned by the possibility for each member to become both a Fund creditor and a Fund debtor, depending on the member's needs. Over the years, the relative economic development of IMF members has led to a growing separation between creditor and debtor countries. Nevertheless, EU countries, through their involvement in mixed constituencies, have so far mitigated the potential detrimental effects on the co-operative nature of the IMF of too strong a division between creditor and debtor chairs. The number and impact of mixed constituencies in the Fund could, however, be reduced significantly by the establishment of a single EU chair.

Whatsoever, the emergence of a single EU chair at the IMF will inevitably entail a fundamental and comprehensive debate on the governance of that institution. Much, however, will also depend on the way in which such an EU chair would be set up, which in turn hinges on the future internal governance of the Union.

A political willingness of the Member States will undoubtedly be a vital prerequisite for the process to be set in motion. After that, the effective impact will very much depend on the governance of the EU chair itself (i.e. the way in which its positions are determined, and, more broadly, how its functioning is organised). It can be argued that a common EU foreign policy constitutes a prerequisite for the single EU chair to be able to perform an effective leading role in the decision-making process at the IMF. However, a unique EU membership at the IMF might be arranged before a binding consensus is reached on the establishment of a common foreign policy. The recent decision to appoint a president of the Eurogroup for a 2 years period points in that direction. EU positions at the Fund should then be prepared either through co-ordination mechanisms between national authorities (which already function today, be it – evidently – within a different framework, the Fund remaining a country-based institution), or via a more independent EU institution (existing or newly created).

The conclusion is that a single EU chair, by affecting profoundly the balance of power at the Fund and through its inextricable links with the internal governance of the Union, will inevitably lead to a further and comprehensive debate on the governance of the international financial system. What can be seen as a positive step on the long road to further European integration, will undoubtedly have major implications extending far beyond the borders of the Union, and the functioning of the IMF as such. Hence, the European Union has to consider carefully all the implications of possible actions in this field.

The remainder of the article is structured as follows. In a second chapter we analyse the potential impact of a single EU chair on the IMF members' quota shares. Chapter 3 focuses on the potential consequences for the governance of the IMF, assessing the impact on the decision-making process at the IMF and the importance of the EU internal governance in this process. Finally, chapter 4 considers the impact on other international organisations.

2. The establishment of a single EU quota

A member's quota is at the core of its relations with the Fund. In addition to fixing its contribution to the general resources of the IMF, a member's quota determines its voting power[2], affects its borrowing capacity and determines its part in the allocation of SDR.

A single EU chair could be set up in various ways. In a first scenario, all EU countries could remain Fund members individually, while being grouped in a single EU constituency. Or, as in the United Arab Republic case (1958-1961), there might be a single EU chair that would take over the actual quotas of the countries it replaces, but with the basic votes of a single member. Both possibilities would imply a status quo for the actual quota shares of all other IMF members, while the EU chair would inherit a vast voting power. Bini - Smaghi (2004) however considers a single EU constituency with an adapted quota share.

In a second scenario, the EU as such could become a member, for which a new "fully fledged and single" quota would need to be established. The starting point for the determination of a Fund member's quota is its calculated quota. This number is the outcome of formulas, based on economic variables related to the different functions that quotas perform. First, a country's potential contribution to the IMF's general resources is determined by its economic size, its foreign reserves and the strength of its balance of payments position. Second, the quota formulas are intended to reflect a country's economic and financial impact on the rest of the world. Third, as quotas also determine normal access limits to Fund financing, the formulas relate to the potential borrowing needs of a country, in turn a function of the size of the country, its openness and current account imbalances, the variability of its receipts, and the amount of its reserves.

The quota calculations for a single EU chair would logically be based on data for the EU as a whole, excluding intra-EU flows. The outcome of these calculations, in per cent of total Fund quotas (see box 1), will be smaller than the sum of the former individual (calculated and actual) quota shares of the EU member states. It should be kept in mind that any change in the EU quota share logically and inevitably entails a change in the quota shares of the other IMF members.

If and when the European quota share is adapted / reduced towards its new calculated quota share, the other IMF members will gain a part of the difference. This redistribution could be done in an equiproportional way, according to existing actual quotas. However, the adaptation of the EU quota share might also trigger a general reshuffle, with the quota shares of all IMF members being adapted towards their new calculated quota shares.

Between the "status quo" option (one EU constituency) and a full alignment of actual quota shares with calculated quota shares, there are many scenarios. History shows that on the road from calculated quota to actual quota, political considerations play an important role. There is a very strong probability that such considerations will play an equally prominent role in deciding the voting power of a single EU chair. Specific points concerning that topic will be discussed at a later stage, in chapter 3.

---

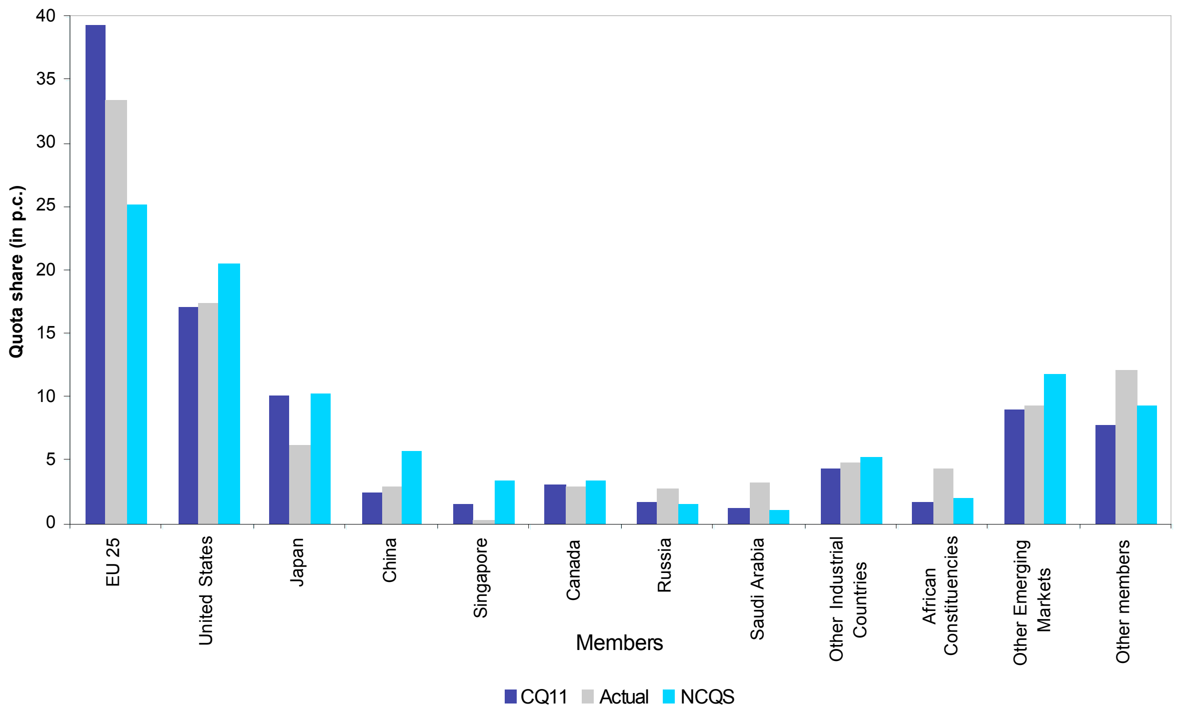
2 For the moment, 97.87 p.c. of voting power depends on quotas and 2.13 p.c. on basic votes, which are identical for all members.

Box 1 Recomputing Calculated Quotas

The actual quota shares of the IMF members were lastly adapted on the basis of calculated quotas computed for the eleventh general review of quotas (CQ11)[3]. However, due among other things to the primacy of equiproportional adjustments (distributed to all members according to their existing, actual quota shares) in general quota reviews, there still exist relatively substantial differences between the calculated and actual quotas.

We have computed new calculated quota shares (NCQS) for the option under which a new single quota would be attributed to the EU chair, representing the current 25 member states of the Union. Our computations are based upon the five existing quota formulas and use the data from the twelfth quota review. Although there have been in recent (and earlier) years many discussions on a revision of the current quota formulas, it is very likely that any potential future alternative formula will still largely be based on GDP and balance of payments data.

QUOTA OF IMF MEMBERS



Sources : IMF, NBB.
CQ11 are the calculated quota shares computed for the eleventh quota review and based on 1982 - 1994 data.
NCQS are the new calculated quota shares based on 1987 - 1999 data, used for the twelfth quota review.

The first columns of the chart show the calculated quotas (CQ11) as they were computed for the eleventh quota review for the largest members and for various relevant groups of countries. The second columns indicate actual quota shares of these members (Actual), which for various, technical and political, reasons differ from CQ11. The third columns give the new calculated quota shares (NCQS).

It appears from our computations that the EU chair and the US have a similar new calculated quota share[4]. This mainly follows from a downward adjustment of the single EU quota share, as compared to

[3] The eleventh and twelfth general quota reviews were respectively closed in 1997 and 2002 and based on 1982-1994 and 1987-1999 data. The eleventh review led to an adaptation of actual quotas, the twelfth did not. The thirteenth is currently under way. New updated calculations presented in August 2004 confirm the results of figure 1.

[4] Note that our calculated quotas are different from the ones calculated by the Quota Formula Review Group (QFRG) or Cooper Report (IMF (2001 b)). This QFRG was an external panel of experts, chaired by Professor Richard Cooper,

the aggregate quota share of the twenty-five EU countries, largely due to the exclusion of the current account flows among the members from the computations. Every non-EU country gains a part of the difference. In addition, the recent relative economic development of the Fund members also plays a role in the adjustment, as the NCQS are based on more recent economic data than the data underlying the current quotas. While these effects may be substantial for China and other emerging countries, for European economies they are almost negligible at present, as the recent growth rate of this group of countries is relatively close to the world average growth rate.

3. Implications for the governance of the IMF

3.1. Decision-making process at the IMF

A single EU chair at the IMF will have important political implications. It will obviously affect the composition of the Executive Board. Moreover, changes to the quotas of IMF members and thus their voting power will also affect the political governance of the IMF.

3.1.1. Changes in the composition of the IMF Executive Board

Article XII Section 3b of the IMF Articles of Agreement provides for 5 appointed and 15 elected EDs for the IMF Executive Board.

The 5 IMF members with the largest quota each appoint one ED representing their country. At the present time, these are the EDs of the US, Japan, Germany, France and the UK. With a single EU chair, Europe would give up two appointed EDs. If we stick to the NCQS ranking, these could be transferred to China and Canada or Singapore[5], whereas the actual quotas would rank Saudi Arabia fourth and China and Canada ex aequo fifth (Box 1). Such transfer would be welcomed by critics who claim that Europe is overrepresented vis-à-vis emerging markets.

Alternatively, the number of appointed EDs could be cut, by changing Article XII. A reduction could indeed be appropriate in view of the gap in voting power between the EU/US, and the country ranking third.

As to the number of elected EDs, the Board of Governors may, by an 85 p.c. majority, reduce or increase it. At the moment, there are 19 elected EDs. Four of them are EU representatives : the Nordic[6], the Belgian, the Dutch and the Italian ED. They represent 4 constituencies totalling 37

---

which was commissioned by the IMF in 1999 to submit an independent report on the adequacy of the quota formulas and to make proposals on a formula which would more closely reflect members' relative positions in the world economy as well as their ability to contribute to, and their need for, IMF resources. This group found a calculated quota share for the EU-15 of 28 p.c., much larger than the US quota of 19.6 p.c., as it only excluded intra-EU trade in goods. It did not exclude other current account flows (services, income and current transfers), as we did. We did not exclude current account flows between the 10 new EU member states due to a lack of data during the 80's and 90's. However, their effect seems to be insignificant.

5 Thanks to its very open economy and strong economic growth, Singapore has a large calculated quota. Since Italy and the Netherlands would no longer be separate members, Singapore could, depending on the future development of its economy, even rank fifth. According to the last figures referred to in footnote 3, Canada's calculated quota would however remain larger than Singapore's quota.

6 Norway, Sweden, Finland, Denmark and Iceland rotate in the election of their ED. Sometimes, a non-EU ED thus represents the constituency.

countries altogether. These include all EU countries except Spain, Ireland and Poland[7]. The creation of a single EU chair would require a rescheduling of these constituencies. 15 countries would need to change places[8]; they might either become members of existing constituencies, or form new constituencies. In the process, the total number of constituencies could be reduced. Alternatively, one or two additional EDs could be made available to the rest of the membership, in particular to the less well represented developing countries.

3.1.2. The decline of mixed constituencies

Saudi Arabia, China and Russia elect an ED who only represents his own country. 16 EDs are elected by constituencies of several countries.

Some of these multi-country constituencies are very homogeneous, while others are much more heterogeneous : the so-called mixed constituencies.

Mixed constituencies have an important role in the governance of the IMF. They fulfil a bridge function between the interests of rich and poor, industrialised and less-developed, northern and southern countries, creditors and debtors. Their Executive Director has to take into account the interests of all member countries of his constituency and, depending on their importance and involvement in the issue at stake and on the internal governance mechanisms of his constituency, he will have to make up his mind and express the opinion of his authorities. The consensus built within his constituency may already prepare or prefigure a consensus in the Board, since the different interests within the Executive Board may be represented, on a smaller scale, within the constituency.

Box 2 What are Mixed Constituencies ?

There is no clear definition or exact list of mixed constituencies. Authors usually refer to constituencies including countries with different interests. Some mention geographical or economic criteria while others vaguely refer to the creditor-debtor distinction. In the table hereunder we attempt to classify mixed constituencies according to different criteria.

A first criterion consists in a comparison of GDP of the countries within a constituency. GDP pro capita figures offer a more accurate reflection of the heterogeneity of economic development than absolute GDP figures, as the latter depend too much on the population size of the member countries of a constituency. A constituency with one large country and several small countries may then be classified as mixed while it may be economically homogeneous. Measuring the relative deviation of GDP pro capita within constituencies (first column of the table), the Australian (Australia versus the others), Belgian (Belgium, Austria and Luxembourg versus the others), Dutch (the Netherlands versus the others), Indonesian (Singapore and Brunei Darussalam versus the others), Spanish (Spain versus Latin America), Sub-Saharan and Swiss (Switzerland versus Central and Eastern Europe) constituencies can be considered as mixed. Although the two Sub-Saharan constituencies do only comprise economically poor countries, they are still heterogeneous because the GDP pro capita differences between the poor and very poor remain very substantial. The relatively strong growth of countries like Gabon and Mauritius, for instance, is a major factor in the economic heterogeneity of the French-speaking African constituency.

Secondly, dividing the world in broad geographical terms, we could classify the following constituencies as mixed : the Australian, Belgian, Canadian, Dutch, Indonesian and Swiss constituencies.

7 Spain is in the same constituency as Mexico and Venezuela, Ireland is with Canada and Poland is a member of the Swiss constituency.

8 These are Belarus and Kazakhstan from the Belgian constituency; Armenia, Bosnia-Herzegovina, Croatia, Georgia, Israel, FRY Macedonia, Moldova and Ukraine from the Dutch constituency; Iceland and Norway from the Scandinavian constituency; Albania, Timor-Leste and San Marino in the Italian constituency. In addition to these 15 countries, Romania, Bulgaria and Turkey may only change places if a EU seat were created before their accession to the EU.

Eventually, as third criterion we could consider the creditor-debtor status of the member countries. This criterion best reflects a country's IMF status : creditor and debtor countries have very different interests in the IMF. We define debtors as countries that used IMF resources during a ten years time-span (1992-2001). There were, of course, many more countries that were debtors between 1992 and 2001 than exclusively in 2001. But a ten-year analysis takes greater account of the vulnerability/fragility of lenders[9]. Under this criterion only one (the French-speaking African) constituency is entirely homogeneous. All other constituencies include both debtor and creditor countries. We hence fix a threshold and define constituencies with at least 75 p.c. debtors or creditors as homogeneous constituencies. Using this criterion, the Australian, Belgian, Canadian, English-speaking African, Indonesian, Italian and Nordic constituencies can be considered as mixed constituencies.

HETEROGENEITY OF MULTI-COUNTRY CONSTITUENCIES

Constituency	Geographical	Share of Debtors [1]	Composition
Indian ………………………..		75	India and 3 neighbouring countries
Iranian ………………………		86	Iran, Ghana, Afghanistan, Pakistan and 3 Maghreb countries
Brazilian ……………………		78	Brazil and 8 Latin-American countries
Argentinian ………………..		83	Argentina and 5 South-American countries
Nordic ……..……………….		38	5 Scandinavian and 3 Baltic countries
Italian ……………………….		29	Italy, Greece, Portugal, Albania, San Marino, Malta and Timor-Leste
Canadian ………………….	Mixed	58	Canada, Ireland and 10 Caribbean countries
Egyptian …………………..		23	Egypt, Maldives and 11 Arab countries
Belgian …………………….	Mixed	70	Belgium, Austria, Luxembourg, Czech Republic, Hungary, Slovak Republic, Slovenia, Turkey, Belarus and Kazakhstan
Australian ………………….	Mixed	43	Australia, Korea, Mongolia, New Zealand, the Philippines and 9 Pacific countries
Spain ……………………….		75	Spain, Mexico, Venezuela and 5 Central-American countries
English-speaking African ...		68	South Africa, Nigeria and 17 mainly English-speaking African countries
French-speaking African ...		100	24 mainly French-speaking African countries
Dutch ……..………………..	Mixed	83	Netherlands, Cyprus, Bulgaria, Romania, Israel, 3 Balkan and 4 CIS countries
Indonesian ………………..	Mixed	58	Indonesia, Brunei Darussalam, Malaysia, Singapore,6 Asian and 2 Pacific countries
Swiss ……..………………..	Mixed	75	Switzerland, Poland, Serbia-Montenegro and 5 CIS countries

Source: GDP pro capita (World Bank 2001) and Debtor ratio (IMF 1992-2001).
[1] Share of debtor countries between 1992 and 2001 in the constituency.

The heterogeneous composition of mixed constituencies may occasionally also push the EDs of these constituencies to a more politically independent stance. This was illustrated at the approval of Mexico's Stand-By Arrangement in February 1995[10] or at various recent Board decisions on Argentina, where EDs of mixed constituencies abstained. Mixed constituencies thereby may contribute to balance political positions within the IMF.

[9] However, there is also a negative bias with a 10-year time span. A country that was an IMF debtor 10 years ago, such as Chile, may have graduated from IMF financing.

[10] See Van Houtven (2002).

In several cases, the EDs of mixed constituencies have played a decisive role in striking a balance between the interests of industrial countries and developing countries. While sharing industrial countries' views on many issues, they have also often taken the same position as developing countries, and even helped to outvote industrial countries. For instance, during the 2000 Review of Fund facilities, several mixed constituencies supported the EDs of developing countries in resisting an increase in the rate of charge[11]advocated by the G7.

In the end, mixed constituencies may often be a better mouthpiece for developing countries than constituencies of less-developed countries, as the influence of the former generally is much higher. The creation of a single EU chair at the IMF would greatly reduce the number of mixed constituencies. According to economic, geographic and debtor-creditor criteria, an EU constituency would be a homogeneous constituency[12]. There would thus be fewer institutional bridges between industrialised European countries and other countries at different levels of development.

3.1.3. Growing political importance of the EU

In 1958, when the European Economic Community was established, its 6 founding members held 15.75 p.c. of total IMF voting power, while the US held 25.78 p.c. Up to now, the aggregated quota share of the EU members has been growing: not only has the number of Union members risen to 25, but their overall share in the world economy, and thus their calculated quota, has also increased. The growth in the number of IMF members (from 45 to 184) is the main reason why the share of the US has decreased to today's 17.4 p.c. (Chart 2). With this share, the US nevertheless remains the only member with a veto right for 85 p.c. majority votes[13] and by far the largest member (almost three times bigger than the next largest). The nation's political and economic power obviously reinforces this position. Moreover, since the IMF headquarters are located in the territory of the member having the largest quota, US ideas and opinions are relatively influential because they are close at hand. In practice, the single US position at the IMF was only seldom confronted with a strong and single European voice. However, helped by shared values and reinforced coordination mechanisms since the advent of EMU, EU countries increasingly find themselves on the same side on essential issues, such as the establishment of a mechanism facilitating sovereign debt restructuring[14].

A scenario in which a single EU chair would inherit the actual quotas of the EU membership and thus have a veto power for 70 p.c. majority votes[15] may not seem very plausible from a political point of view. Since the economic data relevant for quota calculations are similar for the US and the EU, there are objective arguments in favour of convergence of the actual quotas of the two chairs. The quota for the EU chair could hence be significantly below the sum of the actual quotas of the EU member states. One element in the forthcoming - ultimately political - discussion might nevertheless be the observation that, in the process, Europe would stand ready to give up 6 of its current 7 EDs.

An interesting paradox in this field is that a reduction in the number of European EDs, in the global voting power of Europe and in its contribution to the Fund's general resources could go hand in hand with an increase in the Union's impact on IMF decision-making. A single EU chair would indeed have both the power to veto important decisions, and substantial constructive power to foster decisions. Leech (2002) illustrates this by calculating power indices for IMF members. His results prove that for ordinary IMF decisions requiring a 50 p.c. majority, the US currently has political power far in excess

---

[11] See Van Houtven (2002).

[12] With 25 countries, the EU would have a GDP pro capita relative deviation of 0.66 and a debtor ratio of 8 p.c. With 28 countries, these indices would be respectively 0.76 and 18 p.c.

[13] An 85 p.c. majority is required in 16 categories of decisions, such as adjustment of quotas and votes, provisions for general exchange arrangements, allocation and cancellation of SDR and amendments to the Agreement. The lack of ratification of the last SDR allocation by the US therefore blocks its implementation.

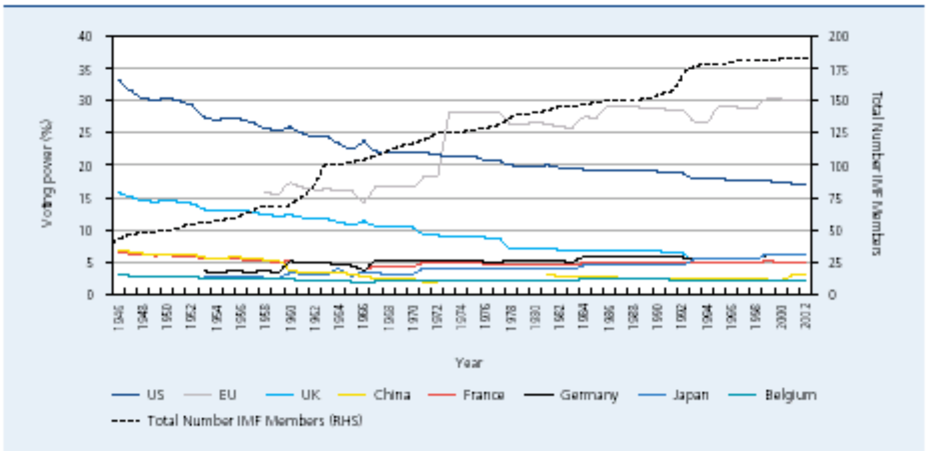
[14] See National Bank of Belgium (2003).

[15] A 70 p.c. majority is required for many financial and operational decisions and the suspension of voting rights.

of its voting weight, since it does not need many other members to form a winning coalition. According to such indices, a single EU chair would have more power than the EU members taken together.

Note that adapting actual quotas towards calculated quotas for the entire Fund membership might go against the current trend of strengthening the voices of the low-income countries. One way of compensating for this might be to increase the basic votes, i.e. the number of voting rights each Fund member automatically receives, regardless of its quota.

CHART 2 EVOLUTION OF IMF VOTING POWER



Source: IMF.

3.1.4. Increased polarisation of the IMF governance

The creation of a single EU chair would drastically change the balance of power at the IMF. The EU chair and the US, each with a veto power for 85 p.c. majority votes, will together also be able to veto 70 p.c. majority decisions. And for simple majority decisions (50 p.c.), an alliance of the US, Europe and Japan (or China in a near future) will be sufficient. Once the large chairs agree on a specific issue, it will be difficult to go against or block their agreement. It however remains a moot point whether in real life a Fund with two main players would function better than under the now prevailing structure.

At the current juncture, there is already a tendency towards creditor/debtor polarisation in IMF governance. The decline of mixed constituencies and the importance of the two largest members might further impair the co-operative nature of the IMF, which risks becoming a forum opposing creditors to debtors, where minority debtors can ask for financing. Although the IMF at its origin was a co-operative where a country could be a creditor one year and a debtor another year, creditor and debtor countries have become two more clearly distinctive categories. The diversity of interests of EU countries, the functioning of mixed constituencies, and – more recently – the element of "peer review" in surveillance and financial sector assessment activities, nevertheless still favour the co-operative nature of the IMF. The creation of a single EU chair with a clear, single European position and the waning importance of mixed constituencies it entails would affect this co-operative nature. However, much will depend on the positions taken by the EU chair. The internal decision-making process of the EU will therefore be very important.

3.2. Impact of internal EU governance on the IMF

The implications of the introduction of a single EU chair will depend very much on the internal governance of the EU. Specific mechanisms will have to be set up to operate, at the more technical

level, the duties and rights of an EU chair at the IMF and to establish, at the political level, the European positions. These mechanisms would function either or not within the broader framework of a common European foreign policy.

Currently, the European Commission and the ECB have observer status at the IMF; the former however only at the International Monetary and Financial Committee, the latter at the Executive Board as well. Voting power lies entirely with the EU countries, the Fund remaining at the current stage a country-based institution. Nevertheless, co-ordination is increasing, both at a technical level (through the setting up of specific committees, in Brussels as well as in Washington) and at the political level (in particular within the Eurogroup which has recently decided to benefit from a two-year presidency).

A situation in which all EU countries would gather in one constituency (or a membership similar to that of the United Arab Republic) would less strongly affect the rights and duties of the countries concerned. Each EU member state would remain a member of the Fund individually, but Europe would have to speak with one voice, and to cast a single vote. The decision-making process in the constituency would be based mainly on a confrontation of national interests of the members, as is already the case in multicountry constituencies. A major difference in relation to the currently prevailing situation of increased co-ordination would be the need for an ex-ante commitment to reaching a common view, as an ED can only take one position.

When the EU, in another scenario, would become a “fully fledged” single member of the Fund, it would obviously inherit the duties and rights of the actual European IMF member states. This would have more far-reaching implications. The single EU member would contribute to IMF financing according to its quota. Equally, since the IMF only deals with its members and not with sub-entities, the Fund would exert surveillance under Article IV of the Articles of Agreement over the European Union as a whole, and could no longer eventually provide financing to individual member states of the Union.

Whether a single chair will be introduced, and which positions it will take in IMF decision-making, will largely depend on the progress made in the unification of foreign policies. If the European Union succeeds in formulating a common foreign policy, in addition to a common monetary policy, a single EU membership at the Fund would become inevitable. In such a situation, and obviously depending on the clarity of the common foreign policy, all conditions would be present for the European chair to be able to define and defend clear cut positions.

A common foreign policy will however imply compromise among EU members. As put forward by Frieden (2004), every individual member will have to weigh the impact of a greater role for Europe against the potential costs of a policy not to its liking. Hence, the greater the divergence of views among EU member states, the less likely the EU is to agree on a common foreign policy. And countries whose preferences are further from the EU median than from the international median are more likely to oppose pooling representation.

However, if the EU were to opt for a single membership before foreign policy is unified, EU positions at the IMF would risk to become either watered down, or largely technocratic. The co-ordination of national positions would indeed be a cumbersome process, the outcome of which would risk being compromises reflecting the largest common denominator between still highly differing political views of member states. If and when IMF position-taking would be left to a more or less independent institution of the Union, a factor for tensions within the Union and between the Union and its member states would be built into the system, while at the same time the accountability of the Fund could suffer.

The link between EU and IMF governance obviously is a two-way relationship. The Union’s internal organisation with regard to its single chair at the Fund will indeed undoubtedly be influenced by the degree to which the IMF will be a rules-based institution, providing a clear and transparent framework for decision taking, with well-defined objectives and proper accountability. The higher the degree of discretion in managing the Fund, the more difficult it could be to organise a well-functioning EU chair, able to reach well-defined positions within the often required short time-span.

4. Potential implications for other international economic and financial organisations

The creation of a single EU chair at the IMF would also affect other international economic and financial fora, and the global external representation of the EU countries. Apart from the IMF, there is a vast array of international groupings where EU countries are represented. The composition of these groups varies. In some of them, the European voice is already present via the European Commission and/or the ECB. In others, only some European countries are represented (Chart 3). The creation of a single EU chair at the IMF might be coupled with a review of how EU countries are represented in the other international financial spheres. The creation of a single EU chair at the IMF would in all probability influence the governance of the World Bank. Should a single EU seat at the IMF also give rise to a single representation at the World Bank? Such a move might be facilitated by the relative similarity between the governance of the two institutions (the constituencies are almost identical, and their voting power very similar). In addition, the Bank and the Fund already collaborate closely on country programs and conditionality.

The consequences of the single EU chair at the Fund will probably be quite noticeable within the G7. The G7 has a decisive influence on IMF decision-making, and the Managing Director of the Fund usually participates, by invitation, in the surveillance discussions of the G7 (or G8) finance ministers and central bank governors. The EU already participates in the G7 (Chart 3). If the EU countries start speaking with one voice within this group, a single European representation could replace the current EU member states' representatives. This group would hence become a group of four, with the EU and the US as major participants. The governance of the IMF with its two major blocks, the EU and the US, would thereby closely resemble the governance of the G7.

Similarly to the G7, the eleven participants to the General Arrangements to Borrow (GAB) - which also constitute the G10 - or the twenty-six participants of the New Arrangements to Borrow (NAB) are also selected groups of financially strong industrial countries (or their central banks). In the case of a single external European representation, the composition of the G10 and the G7 would become very similar (the only difference being the presence of Switzerland in the G10).

The number and impact of international institutions and fora, which moreover often cover considerable other fields in addition to mere financial and economic issues, again point to the complexity of streamlining the European Union's representation, the far-reaching consequences a single EU chair would entail, and the quasi inextricable links the issue has with the establishment of a common European foreign policy.

CHART 3 EXTERNAL REPRESENTATION OF THE EU COUNTRIES

	G7	G20	G10	IMF & Worldbank	OECD	UN	WTO
D	✓	✓	✓	✓	✓	✓	✓
F	✓	✓	✓	✓	✓	✓	✓
I	✓	✓	✓	✓	✓	✓	✓
UK	✓	✓	✓	✓	✓	✓	✓
B			✓	✓	✓	✓	✓
NL			✓	✓	✓	✓	✓
SV			✓	✓	✓	✓	✓
Other EU				✓	✓	✓	✓
Council		✓					
ECB		✓			✓		
Commission					✓		✓
Other members	3	15	4	169	15	175	129
EU Observers	Commission, Council, ECB*, Eurogroup*		Commission, ECB*,	Commission, ECB,		Commission	

*for some discussions.

References

Banzhaf, J.F. (1965), Weighted voting doesn't work; A mathematical analysis, *Rutgers Law Review*, 19, 317-343.

Bini-Smaghi, L. (2004), A single EU seat in the IMF?, *Journal of Common Market Studies,* Vol. 42 Issue 2.

De Gregorio, J., B. Eichengreen, T. Ito and C. Wyplosz (1999), *An independent and accountable IMF*, CEPR, London.

Frieden, J. (2004), One Europe, One Vote ?, The Political Economy of European Union Representation in International Organizations", *European Union Politics,* 261-276.

Gold, J. (1974), *Membership and non-membership in the International Monetary Fund: a Study as International Law and Organization*, IMF, Washington.

IMF (2001), *External Review of Quota Formulas : Quantification*.

IMF (2004), *Quota-Updated Calculations,* http://www.imf.org/external/np/fin/2004/eng/082704.htm

Leech, D. (2002), Voting Power in the Governance of the International Monetary Fund, *Annals of Operations Research*, 375-392.

Louis, J.-V. (2002), Governing the EMU or Governing the EU, draft report at Symposium "Monetary Policy and Globalisation of the markets".

Mahieu, G., D.Ooms and S.Rottier (2004), The Governance of the IMF with a Single EU Chair, *Financial Stablity Review,* National Bank of Belgium.

National Bank of Belgium (2003), "The Rey Report Revisited", *Financial Stability Review.*

Van Houtven, L. (2002), Governance of the IMF, *IMF Pamphlet Series*, 53, Washington.