

## Europe in the IMF

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Europe's leaders never tire of reminding their constituencies, almost like a mantra, that the major emerging-market countries are overturning the existing global economic order. But when it comes to recognizing that reality in the world's international financial institutions, they adopt a different tune. This is particularly true of the eurozone.

The eurozone as such has no representation in the international financial institutions. Instead, 12 eurozone countries are represented on the board of the International Monetary Fund via six different "constituencies," or country groups. The two largest, Germany and France, have a constituency all their own. Ten other eurozone members are part of four other constituencies headed by Belgium, the Netherlands, Spain, and Italy. However, these four constituencies also contain more than 20 other countries, most of which are not even EU members.

Together with the Scandinavian and British constituencies, there are thus eight EU representatives on the IMF's executive board. Given that the IMF's Articles of Agreement stipulate that there can be only 20 board members, this means that 40% of all the IMF's executive directors are Europeans, with one-third coming from the eurozone.

The IMF is a prime example of the over-representation of Europeans in international fora. Counter-intuitively, however, the excessive number of Europeans actually diminishes Europe's influence, because they usually defend national interests, which are often divergent. The net effect is that common European interests are not represented at all.

Contrast this current condition of extended misery with the only sensible long-term solution: a pooling of IMF quotas by all eurozone countries. The eurozone would then have one constituency, or seat, on the Fund's executive board, filled by a candidate nominated by the eurozone group of finance ministers.

The European Central Bank could also, perhaps, be involved, nominating the deputy of the eurozone executive director at the Fund. In this way, Europe's fiscal and monetary authorities would be forced to cooperate in shaping their input into IMF decisions. Many countries (including Germany) already follow this "double-headed" approach.

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The eurozone representative would be very influential, because he would represent an even larger quota than that of the US. Indeed, the US Treasury's *de facto* dominance within the IMF would become a thing of the past.

But, given the scant interest of European Union members in transferring further competences (and juicy international positions) to the EU level, the chances that this solution will prevail seem remote. Germany, in particular, feels that it has no reason to share its IMF representation with other, fiscally weaker eurozone members. And the French seem scared of contagion: once France agrees to a common eurozone seat at the IMF, others could cite it as a precedent to be applied to the United Nations Security Council, where France would then risk losing its permanent seat to a common EU representative.

Until now, the rest of world could only grumble at Europe's obstinate refusal to recognize its relative decline. Since no European country would agree to give up its seat on the IMF's executive board, the only way out was to add more and more temporary seats for the dynamic and underrepresented emerging economies.

Such a process, however, cannot go on forever, because with each increase in size, the IMF's board becomes less and less effective. This is why the US has now decided to throw a cat among the European pigeons.

The US (which has veto power) has now taken the stance that it will no longer approve the higher number of executive directors (24 at present). This has confronted the Europeans with a quandary: if they do not agree to give up some seats on the IMF board, some emerging countries, such as Argentina, Brazil, and perhaps even India, would lose theirs. The EU does not want to be held responsible for this.

The pigeons are thus fighting among themselves over who should be sacrificed. Until now, it could be argued that the eurozone did not have a common fiscal agency that could represent common eurozone interests. But this has now changed with the creation of a European rescue fund in the form of the European Financial Stability Facility (EFSF).

Funding the next intra-eurozone rescue will be rather cumbersome and costly, because financial markets distrust complicated structures like the one set up to finance the EFSF. This suggests a golden opportunity for Europe to make a virtue of necessity by pooling its access to much-cheaper IMF funding.

If, for example, Ireland (or Spain) needed emergency support, the other eurozone countries could simply agree to lend it their IMF quotas. The troubled country could then rapidly obtain a large IMF loan, given that the eurozone countries' quotas total about €60 billion – and that IMF loans can easily reach multiples of the quota.

Creditor countries like Germany would also gain, because they would not need to extend vast sums in guarantees to the EFSF while still safeguarding their interests within the EFSF's existing structure. All eurozone members, then, have an interest in concentrating in a smaller number of constituencies, with the EFSF representing their collective interests within the IMF.