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EU to Defend Its Clout at IMF as U.S. Seeks Overhaul

By Sandrine Rastello - Sep 6, 2010

European finance ministers this week will try to protect their clout at the International Monetary Fund after the U.S. unexpectedly forced a debate on which countries sit on the institution's board of directors.

Meeting today and tomorrow in Brussels, European officials are under pressure to reduce the number of their seats to give emerging economies more voice. They're rushing to respond to a U.S. decision last month to block a proposal to maintain the IMF board in its current 24-seat form.

At stake is the governance of an institution that doesn't fully reflect shifts in the global balance of economic power 65 years after it was created to lend to cash-strapped countries. Giving emerging nations such as China, South Korea and Turkey a bigger say in IMF decisions may cost some European countries a seat at the table.

"It is a very tense situation because the U.S. has essentially forced the hands of the Europeans," said Eswar Prasad, a senior fellow at the Brookings Institution and a former IMF official, in an interview. "It is bringing the issue to a head in a way that I don't think either the IMF or the Europeans wanted it."

The U.S. push effectively ties the board-representation issue to separate negotiations among IMF members on the weight of emerging nations' votes. Group of 20 leaders pledged last year to enhance the voting power of China and others and planned to have details ironed out by a summit in November in Seoul.

Voting Imbalance

China, which this year passed Japan to become the world's second-largest economy, has a 3.65 percent voting share, compared with Japan's 6.01 percent.

"Europe shouldn't let itself be put under pressure, but we should clearly realize that the demands of others have grown," Austrian Finance Minister Josef Proell told reporters before today's meeting in Brussels today. Necessary IMF reform shouldn't be done "in a way that tramples on Europe."

The American strategy is designed to bolster the IMF's "legitimacy" and "advance multilateralism," U.S. Treasury Department spokeswoman Natalie Wyeth said last month.

The head of the fund since its inception has been picked by Europe, while the U.S. has chosen the president of the World Bank. IMF Managing Director Dominique Strauss-Kahn is a former French finance minister, while World Bank chief Robert Zoellick is an former U.S. deputy secretary of state.

Trichet's Push

European Union finance ministers are due to discuss the board-membership issue tomorrow, according to the agenda posted on the EU's website. Officials got a nudge from European Central Bank President Jean-Claude Trichet last week to find common ground on "various views" among Europeans.

"It would be very important for the Europeans to be united and to have a clear, united position," Trichet said during a Sept. 2 press conference in Frankfurt. "It is part of the appropriate management of the global economy that we make clear what we consider appropriate."

The IMF's board reviews issues including loans to countries, the health of their economies and assessments of government policies. The committee was originally 20 seats. Over the past 20 years, member countries every two years have voted to allow additional seats.

The U.S., the IMF's largest shareholder with 16.7 percent of the voting power, is the only country that can wield a veto on measures that require 85 percent approval.

Without an agreement by November, the board would revert to its original size, with India and Brazil losing a seat.

Longtime Threat

The U.S. strategy "is a position that's been informally pushed and threatened for a long time but this is the first time it was fully implemented," said Tim Adams, a former U.S. Treasury undersecretary in the George W. Bush administration who's now a managing director at the Fairfax, Virginia-based Lindsey Group, an economic advisory firm.

"As Europeans, we have to acknowledge that there are a large number of European seats around the table," Jean-Claude Juncker, who leads the group of euro-area finance ministers, told reporters in Brussels today. "We have to look for ways and means how to deal with that problem."

The number of European seats at the board varies from eight to nine depending on the year. Germany, France and the U.K. have their own vote along with the U.S. and Japan. Countries such as Switzerland and Belgium have executive directors who represent a group of nations.

Smallest Weight

Sub-Saharan African countries have two representatives at the board and would lose one if it reverted to 20 seats. Under the current organization, the four seats with the smallest weight, each representing a bloc of countries, are held by Rwanda, Argentina, India and Brazil.

"The U.S. should stick to its guns. It should reduce the size of the board to 20 and the Europeans should take the haircut," Pamela Gomez, a spokeswoman for the aid group Oxfam International, said in an interview. "It's very important the seats of low-income countries be protected."

Prasad said that seats of the Netherlands and Belgium are the most likely to be targeted by Europeans. They could, for instance, merge into larger European seats, leaving room for the creation of a third African seat, he said.

Strauss-Kahn has said he supported a reduction in European chairs or a single one for the euro region. Speaking on June 29 at the Peterson Institute for International Economics in Washington, before the vote on the board size, he predicted talks would not be easy.

Strauss-Kahn said that as a French finance minister in the late 1990s, he had tried to merge the French and German seats.

"The idea had some interest, got some steam until the French minister of foreign affairs stepped in, explaining it was a very interesting idea, but that if we started that, we'd have to do the same thing at the Security Council of the UN and there was no way," he said.

"That was the end of the story."

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