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European Finance Ministers Discuss Plan to Keep Clout at IMF

By Sandrine Rastello - Sep 29, 2010

European finance ministers meeting today will seek to seal an agreement that protects their clout at the International Monetary Fund while making room for emerging economies such as Turkey at the executive board.

Advanced European economies, under pressure from the U.S. to reduce the number of their seats on the IMF board, would share access with Poland and Turkey under plans being discussed, European officials involved with the talks said. Mexico and Venezuela would split a board seat that they previously shared with Spain, they said.

The proposed changes fall short of U.S. calls for European nations to give up some of their board seats to make room for a greater number of emerging economies, said Domenico Lombardi, a former IMF board member. Under the plan, western European countries would have between six and eight seats at the board, compared with eight to nine now.

The European proposal "does not address the thrust of the U.S. request," said Lombardi, now a senior fellow at the Brookings Institution in Washington. Instead, "What we are talking about here is how to preserve the perks of national representation in an increasingly global multilateral institution."

At stake is the governance of an institution that doesn't fully reflect the rising economic clout of countries such India and China, which this year surpassed Japan as the world's No. 2 economy. The U.S., which last month blocked a proposal to maintain the IMF board in its current 24-seat form, has said it is seeking stronger representation of emerging economies to bolster the fund's legitimacy.

Pushing for Diversity

U.S. Treasury Secretary Timothy F. Geithner "supports reforming IMF governance structures to better reflect the realities of today's global economy," department spokeswoman Natalie Wyeth said in an e-mail. "This includes reform of the IMF Executive Board to strengthen the representation of emerging market and developing countries."

European Union members argue that their representation at the board, accounting for about a third of seats, reflects their share of the world economy.

The IMF's board reviews loans to members, 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 an additional four seats.

The U.S. blocked that vote last month to force a decision on the reallocation of seats. Europeans are also seeking to make the 24-seat board format permanent, said the officials familiar with the plan.

Japan, Belgium

Germany, France and the U.K. each has its own seat, along with the U.S. and Japan. Countries such as Switzerland and Belgium have executive directors who represent groups of nations.

European officials will be joined at their meeting today in Brussels by IMF Managing Director Dominique Strauss-Kahn, IMF spokesman Bill Murray said. A former French finance minister, Strauss-Kahn in the late 1990s unsuccessfully sought to merge the seats of France and Germany.

Under the plan to be considered today, Belgium and Turkey would take turns on the board to represent a group of countries, according to three European officials who declined to be identified because the proposal hasn't been made public. Switzerland would do the same with Poland. Spain, which now rotates with Venezuela and Mexico to represent a group of Latin American members, would join another group represented by the Netherlands.

'Smoother Way'

Strauss-Kahn, speaking with reporters this week in Washington, said it would be "fair" to give emerging countries more say on the board, naming Turkey as an example. He also said the U.S. could have acted in a "smoother way" to allow more time for Europeans to come up with a proposal.

The opportunity may be lost for significant changes at the board because emerging markets haven't been vocal, said Eswar Prasad, a senior fellow at the Brookings Institution and a former IMF official.

"The U.S. strongly believed that this was a golden opportunity, that they were going to force Europe's hand and the emerging markets were going to rally behind," he said. "The emerging markets have been relatively quiet on this issue and Europe has come back punching very hard."

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