IMF Reform: The Obstacles and Perspectives of the EU Member States

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American University Honors Capstone
University Honors in International Studies

Spring 2008
April 30, 2008

Introduction

As a product of the Bretton Woods system, the International Monetary Fund (IMF) is a longstanding institution that has remained relatively unchanged since it became operational in 1946. Despite its lengthy presence in the international arena, the IMF has been the recipient of criticism more recently for its failure to adapt to global changes. If it is to remain influential in the global community, the Fund must be reformed to be more representative of the current global economy. This paper will examine the different reform options available in order to redistribute voting shares and representation within the Fund. These options include increasing basic votes, reforming the quota formula, creating a double majority voting system, and reform of the Executive Board.

European Union member states have been one of the major speed bumps on the way to reform. Of all IMF countries, EU member states have the most to lose with the reform of the IMF. They are overrepresented in terms of their quota shares and on the Executive Board. While most Europeans supported the most recent proposals for quota formula reform and an increase in the basic votes, it will be difficult to persuade them to accept further reforms. However, more reforms are necessary in order to restore the legitimacy of the IMF, and this paper will analyze policy options that will highlight the positive aspects of reform for the EU member states. How to convince the EU countries to agree to further reforms that would take away voting shares and representation will be challenging, and this paper will discuss how to influence members to support them. It will also look at the ways in which the different reforms can be accomplished through the EU and the IMF, such as the steps necessary in order to pass further reforms. Overall this paper will show that further reforms will be an extremely difficult process, and the only way for them to be accomplished is through further EU integration and by persuading large member states that despite what they may think, they can actually gain from such a consolidation of power.

Reforms

The IMF is struggling to find a balance between satisfying the larger countries, which are the main contributors to the Fund, and the emerging economy countries, who find themselves without a significant voice and are rarely able to influence decision making. In September 2006, the IMF annual meeting in Singapore offered an ad hoc increase of voting shares to seriously underrepresented countries, including China, South Korea, Turkey, and Mexico. Recently, on March 28, 2008, the Fund published a report, "Reform of Quota and Voice in the International Monetary Fund-Report of the Executive Board to the Board of Governors," which outlined the second wave of reforms to happen. While small steps towards reforming the IMF have taken place, but they should continue to the move in the right direction as these are still not adequate reforms. In order for these reforms to be passed, it needs to be accepted three-fifths of the members which hold 85 percent of the total voting power. The votes were due and tallied by April 28, 2008 in Washington, and it passed with an overwhelming majority. Most countries will now need to take it to their Parliaments and have it approved within six months. The proposed reforms in the report and more steps to be considered are addressed below.

Basic Votes

In 1944 with the creation of the IMF, each member country was given 250 basic votes, which constituted 11.3 percent of the voting power. Now the same 250 votes only represent 2.1 percent of total votes because quotas have increased since then. This has led to the smallest and poorest states having less representation in the institution.[1] If basic votes were increased, the change would mostly benefit these smaller and poorer countries.

The Executive Board recently passed a tripling of basic votes, which makes them worth 5.502 percent of the total voting power. They have also proposed maintaining the share of basic votes relative to the total voting power in the future, meaning that basic votes would increase and decrease as member quotas increase and decrease and remain constant at 5.502 percent. This will require an amendment to the Articles of Agreement.[2]

While this is a start, there is always room for a larger increase in order to restore the basic votes to its original share in voting power. While this does benefit developing

[1] Lauren M. Phillips, "Closing the deal: Assessing the opportunities and risks for Bretton Woods governance reform in 2007," Overseas Development Institute, November 2007, 2-3.

[2] "Reform of Quota and Voice in the IMF- Report of the Executive Board to the Board of Governors," International Monetary Fund, March 28, 2008, 5.

economy countries more, some argue that it is not enough to make a significant impact and to restore the legitimacy of the fund.

Quotas

Quotas at the IMF are supposed to reflect the size of each country in the global economy. These determine each country's monetary contribution to the Fund and access to financing. However, with all the changes in the world since the IMF was founded in 1944, there have been few changes in the variables used in the quota formulas, and no changes have taken place since 1983.[3] The quotas have failed to keep up with the emerging market economies and are out of line with their economic weight.

The quota formula that has been used until the most recent reforms lacked transparency. It used five complex formulas in order to calculate quotas, but they were nontransparent and used outdated variables.[4] The quotas have also given too large of representation to small, open economies, such as some European countries.[5] The recent reforms to the quota formula that were passed in April use four variables: GDP counts for 50 percent, openness counts for 30 percent, variability counts for 15 percent, and reserves count for 5 percent. Of the 50 percent counted towards GDP, 60 percent of that is calculated in terms of market rate GDP, and 40 percent is in PPP GDP. There is also a compression factor of .95. To the dismay of developing economy countries, while this

[3] IMF Staff, "A More Transparent IMF Quota Formula," *IMF Survey online*, February 26, 2007, http://www.imf.org/external/pubs/ft/survey/so/2007/INT057A.htm.
[4] Ibid.
[5] Phillips, "Closing the Deal," 3.

new formula may help them increase their shares, it also increases many developed countries' shares as well. Many large, developed countries are underrepresented, and several have agreed to forgo their quota increases for the greater good of the IMF, including the US, Germany, Italy, Japan, Ireland, and Luxembourg.[6] The following table shows the new quotas of members which will receive increases and decreases based on the new formula in terms of both their quotas and votes. The quota increases based on the new formula range from 11.7 to 106.1 percent, with the largest increases going to developing economy countries. The report also suggests another ad hoc increase of quotas for China, Korea, Mexico, and Turkey who, despite the first round of increases, remain largely underrepresented. The proposed increase is, at minimum, 15 percent. The quota shares would be adjusted every five years with the new formula so that over time, countries will notice more of a difference.[7] If they continue to grow, they will eventually be rewarded. Once again, emerging market economies are still wanting more because these changes in basic votes and quota shares combined only shift voting power between developed and developing countries 1.6 percent, and only 2.7 percent since before Singapore, which is a fairly insignificant number. Russian, Saudi Arabian, and Iranian chairs were against these reforms for this reason, and Egypt and Argentina

[6] "Reform of Quota," International Monetary Fund, 2-4.

[7] Dominique Strauss-Kahn, Press Briefing by International Monetary Fund Managing Director, March 28, 2008, http://www.imf.org/external/np/tr/2008/tr080328.htm, 5-6.

abstained because their constituencies were divided and unable to reach a consensus.[8]

Most of this shift in voting power has not even come from the new quota formula, but

Table 1: Quota Changes[9]

Changes in Quota and Voting Shares 1/								
	Quotas						**Votes**	
Country	Percentage change from pre-Singapore to post second round (Nominal)	Percentage point change from pre-Singapore to post second round (Share)	Post second round quota share (In percent)		Country		Percentage point change from pre-Singapore to post second round (Share)	Post second round voting share (In percent)
Top 10: Positive Change from pre-Singapore					***Top 10: Positive Change from pre-Singapore***			
China	49.6	1.02	4.00		China		0.88	3.81
Korea	106.1	0.65	1.41		Korea		0.61	1.36
India	40.0	0.50	2.44		India		0.42	2.34
Brazil	40.0	0.36	1.78		Brazil		0.31	1.72
Japan	17.4	0.33	6.56		Mexico		0.27	1.47
Mexico	40.2	0.31	1.52		Spain		0.22	1.63
United States	13.2	0.29	17.67		Singapore		0.18	0.59
Spain	32.0	0.26	1.69		Turkey		0.15	0.61
Singapore	63.2	0.19	0.59		Ireland		0.13	0.53
Turkey	51.0	0.16	0.61		Japan		0.12	6.23
Top 10: Negative Change from pre-Singapore					***Top 10: Negative Change from pre-Singapore***			

[8] Strauss-Kahn, Press Briefing.

[9] "IMF Executive Board Recommends Reforms to Overhaul Quota and Voice," International Monetary Fund, March 28, 2008, http://www.imf.org/external/np/sec/pr/2008/pr0864.htm.

United Kingdom		-0.52	4.51		United Kingdom		-0.64	4.29
France		-0.52	4.51		France		-0.64	4.29
Saudi Arabia		-0.34	2.93		Saudi Arabia		-0.41	2.80
Canada		-0.31	2.67		Canada		-0.37	2.56
Russia		-0.29	2.49		Russia		-0.35	2.39
Netherlands		-0.25	2.17		Netherlands		-0.30	2.08
Belgium		-0.22	1.93		United States		-0.29	16.73
Switzerland		-0.17	1.45		Belgium		-0.26	1.86
Australia		-0.16	1.36		Switzerland		-0.19	1.40
Venezuela		-0.13	1.12		Australia		-0.18	1.31
Shift to Countries								
Gaining Share: 2/		4.91					5.42	

1/ Based on final rounded figures.

2/ For quota shares, sum for the 54 countries that receive ad hoc increases in the second round. For voting shares, sum for the 135 countries that see an increase

rather from the tripling of basic votes. Because the countries with larger quotas have more voting power, they are able to create the Fund's goals and agenda. If the quota redistributed voting weight, then the developing countries would be able to set a different agenda and change the course of the Fund. This is ideal because the developing countries are the ones that have more use of the Fund, so it only makes sense that they would be more involved in the agenda-setting.

Notice that four of the ten largest losers in terms of quotas and voting share are, according to table one, EU countries, and five were European, which includes the United Kingdom, France, the Netherlands, Belgium, and Switzerland. Clearly they were overrepresented, while Spain was the only EU country that was underrepresented with the new quota system. To emphasize this, with the previous quota system, the EU25 had 86 percent more voting weight than the US, but their GDP was only six percent higher than the US.

Double Majority Voting

Many people support the use of double majority voting in order to give emerging economy countries more influence in the decision making process. In fact, in order to made amendments to the Articles of Agreement, the IMF uses a sort of double majority system, needing three-fifths of the members and 85 percent of the total voting power in agreement to any amendment.[10]

Along with the majority of voting in terms of quotas, there are different options for the second majority, such as chair-based voting or member-state-based voting. If a chair-based second majority is used, which is supported by IMF Managing Director Dominique Strauss-Kahn, it would just further the problems with the imbalanced distribution of voting shares by valuing the opinions of the developed economies more than the developing economies. This is because the advanced economies are

[10] "Article XXVIII-Amendments," *Articles of Agreement of the International Monetary Fund*, http://www.imf.org/external/pubs/ft/aa/aa28.htm.

disproportionately represented on the Executive Board as well. However, if a member-state-based second majority is used, the developing countries will be able to participate in the decision-making process, because they will have the same voting rights as every other country.[11] If these developing countries can gain a majority of more than 50 percent of the states, then they can be more influential.

Some experts oppose a double majority voting system because the IMF already has problems making decisions and this would make it even more difficult. It would be challenging to make decisions, especially with the opposing priorities of the developed and emerging economy countries. However, it would also make the institution more democratic and ensure that the majority is represented.

Executive Board

The Executive Board furthers the inequality in the distribution of voting power. Each member country is assigned to one of 24 groups, and these groups have one country assigned to the Board as a representative of the group.[12] EU member states are disproportionately represented on the Board, as they have seven directors and five alternate directors to their 27 states. Europe as a whole also has Switzerland as a Director, adding more to the overrepresentation of Europe. Meanwhile, over 20 African countries have only one director to represent them. This creates problems with too large

[11] Peter Chowla, "At Issue: Double Majority Decision Making at the IMF," Bretton Woods Project, October 2007, 1.

[12] "IMF Executive Directors and Voting Power," International Monetary Fund, http://www.imf.org/ external/np/sec/memdir/eds.htm.

of a workload for the representative on the Board. Table 2 shows the composition of the different groups and their directors.

The recent reforms allow Executive Directors that are elected by a constituency of 19 members or more, which are the African constituencies, to have the ability to appoint two Alternate Executive Directors. This means that Executive Directors for the African constituencies will have more help with their work load if they so choose, but it is not mandatory that they appoint a second Alternate Executive Director.[13]

Some have suggested that the Executive Board should be consolidated to 20 directors from its current 24 by reducing the chairs of developed countries, particularly those of Europe. For example, Jean-Claude Juncker, Prime Minister of Luxembourg,

Table 2: IMF Directors and Constituencies[14]

Director/ *Alternative* Countries	**Casting Votes of**	**Total Votes**	**Percent of Fund Total**
United States	United States	371,743	16.77
Japan	Japan	133,378	6.02
Germany	**Germany**	130,332	5.88
France	**France**	107,635	4.86
United Kingdom	**United Kingdom**	107,635	4.86
Belgium ***Austria***	**Austria**, Belarus, **Belgium, Czech Republic, Hungary**, Kazakhstan, **Luxembourg, Slovak Republic, Slovenia,** Turkey	113, 969	5.14
Netherlands *Ukraine*	Armenia, Bosnia and Herzegovina, **Bulgaria**, Croatia, **Cyprus**, Georgia, Israel, FYROM, Moldova, **Netherlands, Romania**, Ukraine	105,412	4.76
Venezuela ***Spain***	Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, **Spain**, Venezuela	98,659	4.45
Italy ***Greece***	Albania, **Greece, Italy, Malta, Portugal**, San Marino, Timor-Leste	90,968	4.10
Australia *Philippines*	Australia, Kiribati, Korea, Marshall Islands, Micronesia, Mongolia, New Zealand, Palau, Papua New Guinea, Philippines, Samoa, Seychelles, Solomon Islands, Vanuatu	85,360	3.85
China	China	81,151	3.66
Canada ***Ireland***	Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, **Ireland**, Jamaica, St. Kitts and	80,636	3.64

[13] "Reform of Quota," International Monetary Fund, 6.
[14] Ibid.

	Nevis, St. Lucia, St. Vincent and the Grenadines		
Sweden *Iceland*	**Denmark, Estonia**, **Finland**, Iceland, **Latvia, Lithuania,** Norway, **Sweden**	76,276	3.44
Egypt *Lebanon*	Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libyan Arab Jamahiriya, Maldives, Oman, Qatar, Syrian Arab Republic, United Arab Emirates, Republic of Yemen	70,852	3.20
Saudi Arabia	Saudi Arabia	70,105	3.16
Indonesia *Thailand*	Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao's People's Democratic Republic, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, Vietnam	69,019	3.11
Kenya *Nigeria*	Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia	66,763	3.01
Switzerland ***Poland***	Azerbaijan, Kyrgyz Republic, **Poland,** Republic of Serbia, Switzerland, Tajikistan, Turkmenistan, Uzbekistan	61,827	2.79
Russian Federation	Russian Federation	59,704	2.69
Islamic Republic of Iran *Morocco*	Islamic Republic of Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Morocco, Pakistan, Tunisia	53,662	2.42
Brazil *Colombia*	Brazil, Colombia, Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname, Trinidad and Tobago	53,634	2.42
India *Sri Lanka*	Bangladesh, Bhutan, India, Sri Lanka	52,112	2.35
Peru *Argentina*	Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay	43,395	1.96
Rwanda *Togo*	Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Cote d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, Sao Tome and Principe, Senegal, Togo	30,749	1.39

stated the idea of possibly consolidated the Eurozone countries to one chair.[15] Others suggest that Executive Board members should be elected officials instead of appointing seats to the five largest shareholders.[16] However, this would require an amendment to the Articles of Agreement, which would need the support of the Board of Governors, three-fifths of the members, and 85 percent of the total voting power. Another criticism is that creditor and debtor countries are combined in groups, making them at odds with one another in terms of policy priorities and goals.

Europe

[15] Strauss-Kahn, Press Briefing.

[16] David H. McCormick, "IMF Reform: Meeting the Challenges of Today's Global Economy," February 25, 2008, 6.

The EU Member States can have a huge impact on the process of reform in the long run. In particular, the EU can consolidate its representation within the IMF, which has long been criticized as being overrepresented in the institution. Many Europeans were very supportive of the quota reform proposals that passed in April, and some have especially shown their commitment to the greater good of the institution by waiving their voting share increases that they would receive from the new quota formula. Others, such as France and the United Kingdom, are worried that China may soon overtake them as one of the five largest shareholders. These concerns are warranted, as the new quota formula puts China just behind the two, moving it from eighth to sixth place.

The EU is considered a unique economic and political partnership between 27 democratic European countries, with goals of achieving peace, prosperity, and freedom for its citizens. As advocates for achieving worldwide prosperity, it is the EU countries' responsibility to support the total reform of the IMF. The creation of a single market has led to the abolition of trade barriers and border controls on European goods, meaning these countries are open to each other economically. The creation of the Schengen Agreement has opened the free flow of people across borders. Fifteen of the 27 EU countries have also adopted the euro as their currency. The euro countries are very integrated because of their common currency and could arguably speak with one voice in an international financial institution since their decisions affect each other economically. As shown briefly here, it is not uncommon that the EU countries give up some of their national sovereignty for the good of the group, which is what many hope they will do when it comes to the IMF. However, despite their integration in Europe, there lacks any previous instances in which they have united to be represented as a whole in an international organization.

Despite the recent suggested reforms that were recently passed by IMF member states, there is still more to be done in the future; this should just be the beginning of reforming the IMF to transform it into a legitimate institution. First, in terms of what Europeans can do, is lower the number of representatives they have on the Executive Board. There are many ways to do this that will be discussed further. Secondly, the EU needs to establish a framework in which this change can take place. This paper will thirdly discuss what needs to happen in order for the Europeans to support these changes. While these shifts will take time, they are worth noting now as the future of the IMF is at stake.

EU Representation

The EU's Principle of Subsidiarity states that, "EU Member States' policy competencies should be allocated at the EU level only if it cannot be performed efficiently at the national level."[17] So the question is, would they perform more efficiently within the IMF at the EU level? According to the EU's website, "The EU has more influence on the world stage when it speaks with a single voice in international

[17] Edwin M. Truman, "Asia's Interest in IMF Reform," Peterson Institute for International Economics, January 18, 2008, 230.

affairs."[18] In the case of the EU in the IMF, this certainly seems to be true. Since the IMF tends to decide by consensus, single countries often have little power in the decision making process, other than the US with its veto capabilities. Because the EU countries are spread amongst many constituencies, they are limited in their effectiveness and influence. Some believe more leverage can be gained through having mixed constituencies, but in reality this is fairly limited because the overall voting share of the group is not helpful unless the group comes to the same consensus as the individual member state is seeking.[19] Looking back at table two again, while the Netherlands, Spain, Ireland, and Poland enjoy positions as Directors, they are rather outnumbered in terms of their constituencies. It is doubtful that they could always get the votes to swing in their favor, and that of the EU.

Having all the EU countries in one group would allow them to have a stronger impact on policies, and at the same time give the smaller countries more representation on the Executive Board. It only seems logical for these countries to combine their votes, but many of the large member states disagree. This would allow the EU countries to utilize their over 30 percent of the voting share to make an impact, and even have the largest influence in the institution. While the group would not retain their 30 percent share (it would be lowered because intra-EU trade would be eliminated), they would still

[18] "The European Union on the world stage," European Union, http://europa.eu/abc/12lessons/ lesson_11/index_en.htm.

[19] Lorenzo Bini Smaghi, "A Single EU Seat in the IMF?," *JCMS* 42, no. 2 (2004): 242 .

be the most influential with the most voting power and gain veto power, while it would still redistribute power to other IMF members. By not acting as a single constituency, they actually end up making the US more powerful. One way to lower the quotas of the EU would be to no longer include inter-country trade within the EU as a measure of the openness of their economies. Because openness counts for the second largest variable in the quota formula, this is a significant problem that needs to be assessed; it is arguably unfair to count trade within the EU as 'openness.' The creation of the euro has also reduced the vulnerability to outside shocks, which is also a variable in the newly reformed quota formula.[20]

As shown in Table 2, EU members hold seven Executive Director chairs and also hold five Alternate Executive Director positions. They are clearly overrepresented, as 44 percent of the EU as a whole holds one of those positions. Meanwhile, both African Executive Directors are managing over 20 constituents. It is also interesting that Ireland, Spain, and Poland are in groups with no other EU representation. This makes it very difficult for these three countries to promote EU goals and views.

Europe will likely enhance coordination within the next three to five years, and many EU countries believe that a 'unified EU representation' is needed. There are many scenarios for the EU in terms of how they will be represented in the Fund. These are included in table three. The table shows six different possibilities for the EU, ranging

[20] Ibid., 243.

from a single EU membership to taking a step backwards. It also shows the legal constraints in both the IMF and the EU, the political and economic drivers, and the probability that the condition will be met. The scenarios that have legal constraints have a low probability of happening, at least in the near future, because it will require more EU integration and the support of other IMF countries as well. Because the first EU Treaty was rejected by France and the Netherlands, it is unlikely that an amendment to the Treaty of Lisbon in order to create a single EU membership in the IMF is likely, as it would require a consensus of EU countries. If EU countries were fearful of the original treaty which they thought required them to give up too much sovereignty, it is unlikely that they will be supportive of this measure. Currently, the larger EU member states are unsupportive of this consolidation of power because they would lose their individual voice and power. It is also unlikely that a single EU membership would be supported by other IMF countries with the current voting shares that the EU holds as a whole. It would also probably be vetoed by the US and other countries would be unsupportive unless the EU countries allowed a decline in their voting shares.

As shown in the following table, one can also see that it is unlikely that the EU member states will create their own constituency, or constituencies. While this would cut down the amount of Executive Directors the EU countries have, it could also polarize the Board even more towards the US side, creating more tension with emerging market economy countries and undermining cooperation.[21] On the other hand, some argue that it makes a bipolar voting body, in which the largest powers, the EU and US, will be limited as their powers would be matched, which would enhance the other members' voting powers. Another concern that EU member states have is that unification under one constituency or creating EU member state constituencies would exclude important

Table 3: Scenarios for the evolution of EU IFI governance[22]

[21] Smaghi, "A Single EU Seat," 237.

[22] Charline Nicolas, "European Coordination at the Word Bank and the International Monetary Fund: A Question of Harmony?," *Eurodad*, January 2006, 6.

Conditions/ Scenarios	IFIs Legal Constraints	EU Legal Constraints	Political and Economic Drivers	Probability
Single EU Membership	Change in Articles of Agreement	Change in EU Treaty	• US agenda • Accountability • IFIs governance reform and role • Voice issue • Creation of a "Brussels consensus"	LOW
Single EU Constituency	Change in Articles of Agreement	Intergovernmental agreement	• US agenda • Accountability • Governance Continuity • Voice issue • IFIs governance reform and role • Enlargement of Eurogroup • Creation of a "Brussels consensus"	LOW
EU MS/ European Constituencies	×	×	• Third countries growing economies • Third countries expectations/Voice issue • EU neighbouring policy • Eurogroup	LOW
Improved Coordination	×	×	• Rationalisation of Development policy • Maintenance of mixed constituencies • Franco-German Alliance • Eurogroup	HIGH
Status Quo	×	×	• Failure European Constitution • Political and institutional weakness of Community • Maintenance of mixed constituencies • National specific interests and involvement	MEDIUM
Step Backwards	×	×	×	VERY LOW

EU neighbors (such as Russia) and create tension. In order for this scenario to be accepted by the EU community, each member state will have to gain power.

Unfortunately, many believe that by giving up their Director positions, they are bound to be losers in the situation while the other smaller countries that do not hold leadership positions will greatly benefit from such unification. Usually countries that hold chairs will try to increase the number of countries in their constituency to increase their influence in terms of voting power. This is another argument against having EU constituencies, or a single EU constituency, unless it is able to keep the same combined voting shares which will not be supported by other countries, including the US.

Another major factor in EU representation is whether consolidation of power would interfere with other working groups and cooperation within them. While the EU would have the largest voting share and be influential, they would still need to compromise with other IMF states, whether they are members of the G-7, G-8, G-10, G-20, or G-77. Until the EU's positions are better coordinated, Germany, France, Italy, and the United Kingdom will likely reject a unified EU in order to maintain their bargaining power and links with the other G-7 countries, as well as keep their leadership positions in the IMF. However, these links may make it more difficult for coordination within the EU.[23] In table four, one can see that Germany (D), France (F), Italy (I), and the United Kingdom (UK) will likely have many common views since they share membership in many of the same groups, such as the G-7, G-10, G-20, IMF, WB, OECD, UN, NATO, and of course because they are the larger economy states of the EU. Belgium (B), the Netherlands (NL), and Sweden (SV) will also likely share similar opinions for similar reasons. These, however, may differ from those of the other EU countries. It also complicates matters further that some of the EU internal institutions are

[23] Ibid., 243

involved with these working groups. It would be extremely difficult to coordinate views while maintaining strong relations with the other members of these groups.

In the short term, the article by Charline Nicolas suggests that the EU decide on certain countries of common interest to coordinate their Article IV reviews, which are annual consultations to each member country in order to assess their economic situation. In the medium term, it is realistic for the institutions within the EU that deal with the IMF to be strengthened and possibly have more of a permanent presence in Washington for further coordination.[24]

Table 4: External representation of the EU countries[25]

	G7	G20	G10	IMF and WB	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	

Despite the many reasons to consolidate EU representation in the long run, there are many obstacles to such consolidation. One obstacle is geopolitical interests; it is

[24] Ibid., 25.
[25] Nicolas, "European Coordination," 37.

unlikely that the EU countries have enough commonality in their geopolitical positions to coordinate in the Fund, but rather it may be easier to act individually so the member states do not have to try to find a common position on issues that me contentious or difficult to find a common understanding. Some countries hold special interests or different positions and would therefore be uncooperative and unsatisfied with a single EU representation. This is why more integration in terms of foreign policy is necessary before this transformation within the IMF takes place.[26]

Cultural differences are also an obstacle. For example, some EU countries have special relations with some developing countries, such as former colonies, while other member states may not. Another example of this would be when current IMF Managing Director Dominique Strauss-Kahn was the French Economic Minister. He attempted to create a Franco-German chair at the IMF because these two countries have a long history of collaboration and supporting each other. However, this was unable to happen because of the difficulties they would have in reforming the IMF statues since they are both part of the top five largest quotas, and because of the different administrative cultures of the German and French central banks.[27]

Yet another hindrance is the change of European Council Presidencies every six months, which makes it difficult to stay consistent with dialogue between the IMF and EU representatives. There is also the difference of the level of importance that is given to

[26] Smaghi, “A Single EU Seat,” 239.
[27] Nicolas, “European Coordination,” 20.

the IMF by the EU countries. Larger countries are more interested in IMF affairs because their domestic politics are more related to the institution than those of smaller countries. Generally speaking, the EU overall pays less attention and is less involved in the happenings of the IMF than the US. [28] If the EU is represented by a single constituency before it is better coordinated in its foreign policy, it could cause a great deal of tension between EU members and within the Fund, and the EU position could become "watered down or technocratic."[29]

Despite the rejection of all these proposals by the EU, they do recognize that it is important for the emerging economies to have an increased stake in the institution, such as Asia. However, they are more hesitant to increase the representation of Africa too much because they fear it would put the IMF at risk financially. The EU rather supported an increase of basic voting rights, as in the newly passed reforms.[30]

Framework for Change

The EU's Committee on International Trade called on the European Council to work on creating a single European vote in the IMF dating back to 2005.[31] A commitment was also made in Vienna by the European Council to strengthen and enhance the EU's role in the international realm. When it comes down to it, there is a long process and many steps to be taken before these changes are possible. In fact, right

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[28] Smaghi, "A Single EU Seat," 237-243.
[29] Nicolas, "European Coordination," 21.
[30] Ibid., 24.
[31] Strauss-Kahn, Press Briefing.

now it is not even feasible to think of this, as the Europeans are too divided on the issue. It is extremely difficult to incorporate the EU as a whole as an actor in an international organization because it requires three different levels of cooperation and analysis: at the international, regional, and national levels. However, if these changes were to take place, there are two different ways to accomplish it: an intergovernmental agreement between member states or a change in the EU Treaty.[32]

The euro is one factor that has led scholars to call for a consolidation of EU representation; 15 of the member states use the euro as their currency, and as such, need to adhere to strict monetary and fiscal rules. When issues related to the euro are discussed, the Eurozone countries speak with one voice. This is understandable considering their common currency ties them together economically and a decision made by one state regarding the economy will have effects on the other euro area countries. However, this is just one factor that shows how EU countries are connected, and there are other EU institutions that promote the use of one voice in the representation of the EU in international organizations and other bodies.

Another important factor in decisions regarding IMF reform is the EU's Common Foreign and Security Policy (CFSP). The CFSP is intergovernmental, and decision making is done by consensus instead of qualified majority voting. The CFSP encompasses EU policy regarding EU battle groups, rapid reaction force, peacekeeping,

[32] Smaghi, "A Single EU Seat," 245.

human rights, democracy, foreign aid, and the European Security and Defense Policy. The main provisions of the CFSP as stated in the Lisbon Treaty include that:

> The Union shall conduct, define and implement a common foreign and security policy, based on the development of mutual political solidarity among Member States, the identification of questions of general interest and the achievement of an ever-increasing degree of convergence of Member States' actions.[33]

The CFSP also states, "Member states shall coordinate their action in international organizations and at international conferences. They shall uphold the Union's positions in such forums."[34] These two provisions call for increased coordination in foreign policy between the EU member states. In the provision stating the EU countries will coordinate their action in international organizations, it is it clear that in the future, if the Lisbon Treaty is ratified by all members, the EU member states could have a single voice in international organizations, such as the IMF. In order to achieve the goals of the CFSP, the EU Treaty also calls for "strengthening systematic cooperation between Member States in the conduct of policy."[35] The member states first have to define the general guidelines for the CFSP before proceeding, so this process will take a great deal of time before they are able to coordinate their actions in international organizations such as the IMF.

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[33] *Lisbon Treaty*, European Union, http://eur-lex.europa.eu/JOHtml.do?uri=OJ:C:2007:306:SOM:EN:HTML, 16.

[34] *Treaty of the European Union*, European Union, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2006:321E:0001:0331:EN:pdf, 18.

[35] *Lisbon Treaty*, European Union, 17.

The EU's development policy is also an important part of the EU's role in the IMF. EU countries provide more than half of the financial assistance to the most impoverished countries in the world. The EU Treaty says:

> The Community and the Member States shall coordinate their policies on development cooperation and shall consult each other on their aid programs, including in international organizations and during international conferences. They may undertake joint action. Member States shall contribute if necessary to the implementation of Community aid programs.[36]

While this rhetoric is not as powerful as the CFSP in terms of unified action and representation, it still establishes increased coordination amongst EU member states regarding development policy, which is an important part of the IMF. If the EU member states can coordinate their positions then they will be able to consolidate representation on the issue of development as well. Since its consolidation would give more voting shares to emerging market countries or allows them more seats on the Executive Board, then this would help shift IMF policy agendas towards the development of these economies as well.

The EU has started to establish institutions to aid in cooperation with the IMF, such as the subcommittee on the IMF (SCIMF), which was established in 2003. The SCIMF brings together representatives of finance ministries, central banks of EU

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[36] *Treaty of the European Union*, European Union, 127.

member states, the Commission, and the European Central Bank in order to work out issues discussed by the IMF Board and helps support the Economic and Financial Affairs Council (Ecofin).[37] The European coordination body on the IMF, EURIMF, was also created in order to have EU representatives to the IMF and for the first time in 2007, a chairman of EURIMF was appointed for a two year term which should help increase the continuity between the EU and IMF.[38]

Internal Voting Procedures

In order to create a single EU constituency with all EU members states or a single representation for Eurozone states, it would require the agreement of the EU countries to coordinate and accept a redistribution of voting weights, as they would have to give up some voting power rather than combine their current voting weights. As shown in table five, the EU25 and Euro12 in 2005 had a combined voting share that surpassed the US, almost by twice as much for the EU25. However, table five also shows that the EU is overrepresented since they do not have much higher of a combined GDP than the US. Both of the choices for EU constituencies, EU12 or EU25, would provide increased power for the member states, as well as would be beneficial for every other IMF country other than the US in terms of increasing their voting power. In the end, it would

[37] Smaghi, "A Single EU Seat," 236.

[38] "Relations with the IMF," International Monetary Fund, http://ec.europa.eu/economy_finance/ int_economic_issues/ int_institutions_and_fora262_en.htm.

basically redistribute some weight to the smaller countries, which is the goal of IMF reform.[39]

Table 5: Voting Weight of European Union Countries and the USA in the IMF Board of Governors[40]

	IMF Vote Share %	GDP Share %	Population Share %
EU25	31.9	31.1	7.2
Euro12	22.9	22.9	4.9
USA	17.1	29.3	4.6

The internal voting structure of these constituencies is the most important factor in getting EU member states to accept these changes. They will not likely agree to a single representation if they lose voting power, but if they have enough power in the Board of Governors, and the internal voting structure gives the country enough power in the EU group, it could gain from a single representation even if it has to give up its seat.

Dennis and Robert Leech's study looks at the implications of different internal voting structures if the Europeans were to have a unified representation. As the paper was written in 2005, they do not take into account the three most recent additions to the

[39] Dennis Leech and Robert Leech, "Voting Power Implications of a Unified European Representation at the IMF," University of Warwick, January 2005, 8.

[40] Ibid., 6

Eurozone, which they refer to the as the Euro12, and they only consider the EU before the accession of Romania and Bulgaria in 2007.

For the Euro12 countries, the study looks at internal voting procedure by using current IMF voting weights, GDP weights, population weights, or a one country one vote system. Using an internal voting system of IMF weights would give all the countries an increase in voting power. Using GDP weights for the internal voting structure would only be beneficial to eight of the countries, while using population weights would give similar results. If a one country one vote system is used, all countries would gain except for France and Germany while the rest would receive a substantial increase in their voting power, especially the smallest countries. In terms of the voting share that would maximize the Euro12 group's power, if they had a percentage equal to the US, then all IMF countries would gain in absolute voting power except for the US.[41]

For the EU25 group, the study looks at seven different internal voting structures: using the current IMF weights, the QMV scheme introduced in the Nice Treaty, the system proposed by the European Convention in the draft constitution to replace the Nice voting system, GDP weights, population weights, population square roots, and one country one vote. Using the current IMF voting weights once again gives all countries a substantial increase in their voting power, as with the Euro12 group. The country that gains the most from this structure would be Germany, which goes against the idea that

[41] Phillips, "Closing the deal," 19-27.

giving up a Director position, especially for a single country constituency, only hinders decision making power within the IMF. A system of population weights would almost benefit everyone except Belgium would lose. Using the Nice QMV system would only increase the voting powers of the smaller countries. The Draft Constitution voting proposal would have similar results as the larger countries would lose a great deal of power. GDP and population weights would increase voting power for the larger states but would cause considerable losses to the small countries. Finally, the one country one vote scheme causes the small countries to gain but the largest four countries will lose.[42]

Overall, it looks as if the internal voting structure of the IMF which would benefit all members is if they would continue to use the current IMF quota weights. Because many of the EU member states enjoy a great deal of power in the IMF as Executive Board members, or even as a single-state constituency in the case of Germany, France, and the United Kingdom, it is imperative that these countries have an incentive to give up their sovereign decision making power. With a single EU constituency, the EU group would have as much voting power as the US.

Decision Makers

European Commission

The European Commission is a supranational body in the EU, and is said to be a representative of the EU on an international level. It is also supposed to be independent

[42] Leech, "Voting Power Implications," 26-8.

of individual member state interests, but Commissioners also hold ties to their home countries, which makes it difficult to remain completely independent and unbiased. These Commissioners' duties are to Europeanize certain policies which are originally dealt with at the national level.[43]

Commissioners are usually experienced in national politics. The selected Commissioners are also often affiliated with one of the national parties in office. Because of this selection process, member states may choose a Commissioner who they believe will keep their national interests in mind. Also, Commissioners will often go back to national politics after they leave the Commission, meaning they may try to stay close to their member states' status quo when drafting legislation. [44]

One Commissioner is assigned to the drafting of each piece of legislation, and each member state appoints one Commissioner, meaning there are 27 Commissioners. Because the small and medium-sized states have equal representation, they are extremely overrepresented in terms of population size and other metrics such as economic and land area size. This may be a large contributor to the reason why the Commission's position is usually closer to that of the smaller member states.[45]

One of the more important factors n how closely aligned Commissioners' legislation is to their home country is the type of voting used in the Council in order to

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[43] Robert Thomson, "National Actors in International Organizations: The Case of the European Commission," *Comparative Political Studies,* September 17, 2007, 170-1.

[44] Ibid., 173-4.

[45] Ibid., 175-81.

pass legislation. If qualified majority voting (QMV) is used, unanimity is required to amend the proposal, and then it must be passed with a qualified majority. This is difficult to accomplish, so Commissioners are able to draft legislation when it is subject to QMV that is not appealing to everyone and more closely aligned with their nation's interests. If unanimity voting is used within the Council, the Commission must appeal to all the member states, including those whose views are furthest from its own. Therefore, with unanimity it is less likely that one will find legislation closer to the Commissioner's home state.[46]

While Commissioners are supposed to be independent from their nations, this is not always the case. The type of voting in the Council on the piece of legislation determines the Commissioners' policy positions. With EU enlargement, it may be even more likely that member states will nominate Commissioners that they believe will draft legislation that is closely aligned with their nation's interests. Considering that the smaller states would gain the most from the creation of a single EU representation at the IMF, if legislation such as this is dropped into the hands of a Commissioner from a state that has a great deal to gain, they may be more inclined to write legislation that is supportive of creating a single EU constituency.

European Council

[46] Ibid., 170-84.

The European Council is arguably the most powerful institution in the European Union. While each member state technically gets one vote in the Council's voting procedures, the power within the European Council is not distributed evenly as the voting structure would suggest. There are three factors that influence each state's bargaining power in the European Council: state structural sources of power, institutional sources of power, and individual leaders' sources of power. This structure offers very little protection to small and medium-sized EU member states, while larger states usually dictate negotiations.[47]

Structural power includes factors such as population, territorial size, economic and military strength, stability of the political system, diplomatic reach, etc. Another source of structural power is issue-specific expertise. The member states with more structural power will be able to use their resources to spread their views to the states that do not have as many resources through threats and promises. This automatically shifts decisions towards the larger states in the EU. These larger countries also enjoy more seats in the European Parliament and more votes in the Council of Ministers, making it even more likely that the negotiations go their way. For all these reasons, the structural size of a country in European Council negotiations is largely the most important factor in the outcome.[48] This means that for IMF reform to pass, which must be negotiated on by

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[47] Jonas Tallberg, "Bargaining Power in the European Council," *Swedish Institute for European Policy Studies*, 2007, 12.

[48] Ibid., 12-7

the Council, it is very important to get large countries to support these measures. Unfortunately, the larger EU member states believe they have the most to lose when it comes to consolidating EU representation in the IMF because these are the ones that have leadership positions in the IMF. However, with certain internal voting structures within the EU's representation at the IMF, which was shown earlier, there are ways to increase every EU member state's power, even if they have to give up their Director positions.

While small and medium-sized states are at a structural disadvantage in regards to their size and resources, they often have specialized experience in either regional issues that part of their policy priorities (for example, environmental policy for the Nordic states). This expertise is respected and often helps shape policy in their specific areas of interest. Issue specific power can either be shown through resources devoted to a particular issue, its commitment to the issue, and its alternatives to a negotiated agreement on a specific issue.[49] This could mean that some countries that have committed themselves to increasing support for the developing countries would be more supportive of these reform measures. Also, the countries who realize they would gain from a single representation arrangement would be strong advocates for the change.

Institutional sources of power in the European Council include veto power, the rotating Presidency, and the participation of supranational actors. Because the Council requires unanimity for decision making, each member state is able to veto. While this is

[49] Ibid., 17-9.

an effective tool, it is rarely used because of its implications. While small and medium-sized member states can use it, there will be repercussions for the vetoing country in the future if they do no use the veto on something of extreme importance to their country. If the veto is used by a state too often or on legislation that is not of vital national importance, repercussions include other member states vetoing proposals strongly supported by that member state and loss of reputation. The use of the veto too often also shows the vetoing country is unwilling to compromise or deal with domestic difficulties related to certain legislation, even if it is for the good of the EU as a whole. However, if a state does not agree with legislation but chooses not to veto it, then the leader of that member state will gain more respect because he or she is willing to accept some losses for the betterment of the group. Lastly, the veto is rarely used because it is understood that it only delays negotiations and the issues will eventually be back for further negotiations. Overall, the larger states are able to use the veto more effectively because they do not have to fear retribution as much from smaller states.[50] This just further shows that it is important to gain the support of the larger countries in the process of IMF reform because it will be difficult for smaller states to oppose their views.

Smaller and medium-sized member states view the Presidency as one of the best ways to gain power in the decision-making process, since they lack structural power. The Presidency of the Council is one way in which small to medium sized member states can influence the agenda of the Council, as they are mainly responsible for preparing the

[50] Ibid., 21-2.

agenda of the meetings. Some issues on the agenda are predetermined, but the Presidency can add its own priorities while keeping other issues off the agenda. Holding the Presidency also offers access to important power resources, such as access to information they normally would not have. The important factor in making sure that holding the Presidency will be influential is to make sure the country is well-prepared for their position. From this perspective on institutional sources of power in terms of the Presidency, it is important for IMF reform to be on the agenda and be supported by the Presidency otherwise it will more than likely not receive the attention it deserves.

Individual representatives of countries in the Council must earn the respect and trust of the other representatives. This can be gained through seniority, domestic sentiment about the leader, or through a display of expertise on the institution and certain subjects. If some have better expertise on certain subjects, they can propose agreements that work in their own favor. As leaders gain more respect they are also able to build strong personal relationships with other leaders and create coalitions when it comes to matters of substance as well. If a representative of a member state to the European Council has weak standing in their domestic politics, they will likely not have as much respect from other leaders. They will also be consumed with domestic affairs and be unable to dedicate enough time and energy to EU affairs, making them less effective in the bargaining process. Sometimes government leaders do not understand the how European Council works, which hurts them in negotiations. Some small and medium-sized representatives make sure they know the inner workings of the institution because they do not have the structural power. A lack of comprehensive understanding on certain subjects also makes it more difficult during negotiations to find a compromise.[51] In this sense, it is important to gain support for IMF reform from long-standing Council members who are well respected by their colleagues. It is also important that the Council members are well-informed about the issues being discussed.

Reform into law

In order for these reforms to become a reality, there is a lengthy process it must go through. First, the member states must collectively decide what approach it wants to take for further reforms. Some reforms will not call for more than an agreed upon consensus, such as improved coordination or creating European constituencies. However, if a single EU membership or single EU constituency is created, it would require a change in the IMF's articles of Agreement. Single EU membership would also require a change in the EU Treaty, while a single EU constituency would only require an intergovernmental agreement.

In order to pass such legislation to change the EU Treaty, the Commission would develop the legislation, and it would more than likely need a unanimous vote. This would cause the Commissioner in charge of drafting the legislation to try to appease everyone by drafting a more neutral piece of legislation. This legislation will then need

[51] Ibid., 29-32.

to be voted on by the Council. As discussed earlier, the Council will be driven by the interests and opinions of the larger member states. This is important to note, because the legislation will have to make clear that these large member states will gain a good deal by giving up their Director seats and joining a single EU membership. This, however, will not happen until there is more coordinated foreign and economic policy in the EU.

The single EU membership would require a change in the IMF's Articles of Agreement because it would not follow the current rules of the countries with the five largest quotas get their own chair, and instead three of these members would either be in a single EU membership or a single EU constituency. In order to make amendments to the Articles of Agreement, it has to first be approved by the Board of Governors. If it is accepted by the Board of Governors, then all members will be asked to vote on the amendment. Lastly, it will be passed if three-fifths of the members which compose 85 percent of the voting power accept the amendment. This means that the US has a veto, so whatever amendment is proposed must appeal to them enough for them to not veto. The US might be concerned with sharing their veto power or having someone with equal voting power in the IMF.

Clearly this is a very lengthy and difficult process that must please not only the EU member states, but the 185 IMF member states as well. This is impossible in the current situation, but with increased coordination amongst the EU countries, they may be able to gain enough support to slowly move towards reform.

Conclusion

The most recent reforms passed on April 28 consisted of very little substantial changes, but it at least shows that the IMF is making progress, no matter how limited it may be. The IMF needs to continue to develop reforms in order to truly gain back their legitimacy, and Europeans are, and will continue to be, the most important group in achieving true reform in terms of voice and voting issues.

It is necessary that in the future the EU either accepts a reduction or consolidation of its power in terms of quota shares and Executive Board members. An elimination of intra-EU trade in the EU member states' quota calculation because this trade is increasing their quotas but is the equivalent of domestic trade. Before they are forced to do this, the EU should rather consolidate their power into either one or two constituencies, or give up all sovereign powers and create a single vote for the EU. While this has its challenges, it offers many advantages, such as a gain in power for all member states if they choose an internal voting system that enhances their powers. According to studies, if the current IMF weights are used as individual member state's voting power within a single EU group, this will allow all countries to gain from a single EU voting block.

While this may be ideal, it will not happen for a very long time; before this can happen, the EU needs to be more coordinated on foreign policy and economic policy. They will also have to set aside differences in cultures and history, as economic decision making is more pragmatic than political decision making. The EU's website has already envisioned a more influential Europe is one that "speaks with a single voice in international affairs." With the increasing role of the EU's CFSP and Development Policy, it seems as if there will be more European coordination and integration, which would support the idea of the EU having a single voice in international organizations. The EU has even been more active in staying involved with the IMF, especially through increasing the continuity between them and IMF representatives. Europe has always been behind the US in the role they play in the IMF and the interest they take in the organization, but they seem to be becoming more invested in the institution. This is helpful in persuading them to look at the IMF's future and legitimacy, and hopefully push them to make and accept changes.

There will be a long process to these reforms, as they will have to be decided on both by the IMF and the EU. First and foremost, the countries must decide to create the legislation for such a proposal, and that is where the power structures of both the Commission and the Council come into play. This legislation must also keep in mind the other working groups that each member state is in, and the other 185 IMF member states will also have to vote on the proposal. The main obstacle to getting the agreement to future reforms will be the large EU countries who believe they have the most to lose, and the US who will likely veto any proposal that they are unsatisfied with. Over time, hopefully the EU will be able to increase their integration and also be the facilitator to making the IMF a more viable institution.

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