BertelsmannStiftung

spotlight europe
2008/09 – August 2008

One Voice for the Euro

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In economic terms the euro is a success. Now it is time to upgrade the political importance of the Eurozone. The Europeans would like to play a greater leadership role in the global economy. That is precisely the reason why they should pave the way for a reform of the International Monetary Fund, and pool the representation of their interests in the IMF. It is above all up to Germany and France to take the lead.

Ten years after the introduction of the euro Europe has still not managed to make full use of its possibilities in the areas of global financial and monetary policymaking. The voice of the Europeans is virtually inaudible when it comes to the question of global exchange rate imbalances (e.g., with regard to the Chinese Renminbi), the problem of global balance of payments inequalities, or governance reform within the IMF. The Europeans do not suffer from a dearth of opinions and formal representation, but from their inability to transmute them into political clout.

The most blatant example of this is the fact that, despite having a common currency, the countries of the Eurozone do not even speak with one voice in the International Monetary Fund. Even in the IMF the Eurozone continues to give the impression that it is a patchwork quilt of 15 nation-states. Their influence remains fragmented, and is thus of little importance. However, a reform of the IMF will give Europe the opportunity to provide leadership in the global economy.

The consolidation of the European votes in the IMF would pave the way for a state-of-the-art governance reform of the IMF. The powers of the future, above all China and India, could at last be integrated in an appropriate manner and would then be able to shoulder certain responsibilities. The key to all this is in the hands of the Europeans. An important step in the right direction would be a single voting group for the Eurozone in the IMF. What is needed is one voice for the euro which people would listen to, a voice which would also upgrade the euro in political terms.

I

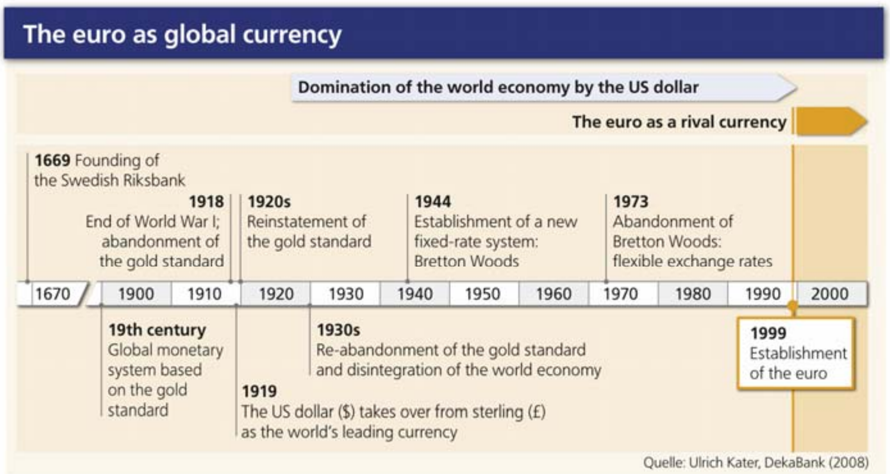
Ten Years of the Euro: Economic Giant, Political Dwarf

In its first decade the euro, in economic terms, has developed into the second world reserve currency. In the global economy the euro has begun to compete on a par with the U.S. dollar. More than a third of all international short-term bonds is now being issued in euro, which means that the euro has almost caught up with the dollar, which has a share of 40 per cent. Even in the case of longer-term bonds the euro has attained a global share of almost 30 per cent. A third of all international bonds means that the market share of the euro is about six times as high as that of the Japanese yen.

The economy of the Eurozone profits a great deal from the fact that the euro has advanced to become the second world reserve currency. In addition to conducting the financing of its international transactions in its own currency and using it for worldwide invoicing, this is above all due to the historically low interest rates in the euro area. Since the outbreak of the First World War the long-term interest rates have not been as low as they were in the first decade after the introduction of the euro. This reflects the stability of its internal value just as much as the worldwide trust which investors place in the euro.

In economic terms the euro has already got very close to its main target after ten years. In the global economy it has established itself as a real competitor of the U.S. dollar. The latter's stranglehold has thus been broken. The euro is clearly a giant in economic terms. But what about the political dimension?

The euro was never a project that was exclusively motivated by economic considerations. Exercising political influence in the global economy has always been the other side of the euro coin. The predominance of the U.S. dollar began at the end of the First World War after the abolition of the gold standard and the end of sterling as a global reserve currency. In economic terms the new order after the Second World War was also a kind of "pax Americana." In the Bretton Woods system of fixed exchange rates the U.S. currency was the only one which enjoyed the privileges of a reserve currency.



The International Monetary Fund (IMF) and the World Bank were institutions set up after the war to facilitate the reordering of the global economy. Their design and governance were also dominated by the U.S. The collapse of the system of fixed exchange rates at the beginning of the 1970s did nothing to change this. In terms of monetary policy Europe remained a patchwork, and it had nothing with which to counter the predominance of the U.S.

dollar. The euro created a series of new political possibilities, though as yet they have not been used.

Even in the IMF – the most important global institution of finance and monetary policy – the Eurozone has not managed to progress beyond a largely non-committal ad hoc coordination of its interests. The current forms and rules governing this coordination of interests are, to put it mildly, opaque. The chairman of the Eurogroup, Jean-Claude Juncker, only recently described this state of affairs as "absurd." "It makes us seem completely risible, in the international arena people think that we are clowns." Even Jean-Claude Trichet, the President of the ECB, and Jean-Claude Juncker, the chairman of the Eurogroup, both of them important actors in the field of international finance and monetary policy, are degraded to the status of peripheral figures who seem to be playing guest roles.

Has the euro after 10 years already become a giant in economic terms, whilst in political terms it is still a dwarf? These conclusions seem rather apposite, but the Europeans should not treat them as the last word on the subject.

II

The Eurozone in the IMF: a Patchwork and not "One Voice"

The current problems of the Eurozone in the IMF are easy to describe. Instead of speaking with one voice the Europeans, even after the introduction of the euro, have retained their various national memberships and representatives in the IMF. And despite the euro the influence of the EU remains distributed among a total of 27 member states, which participate singly in the IMF with the weight of their respective national quotas, and administer the associated voting rights on a nation-state basis.

To use their voting rights in the Executive Board, which is in charge of the day-to-day running of the IMF, the majority of the current 185 member states have joined forces in what are known as voting groups. These voluntary groupings pool the voting

rights of their members and can be represented as a bloc by one member of the Executive Board. Only the five largest IMF participants (U.S., Japan, Germany, France and the UK), by virtue of the statutes, and

China, Russia and Saudi Arabia have their own representatives on the Executive Board.

Of the 27 EU member states, three have seats of their own, whereas the other 24 countries are spread over a total of seven different voting groups. Thus the voice of the EU is divided up on the Executive Board between a total of ten Executive Directors. That is not the only problem. On top of this is the fact that the voting groups of the EU member states are very diverse and also comprise numerous non-EU states:

- The voting group in which Belgium has the chair also represents Belarus, Kazakhstan and Turkey on the Executive Board in addition to six other EU countries.

- The Netherlands represents a voting group in which, in addition to four other EU countries, there are as many as eight non-EU countries.

- In their respective voting groups Spain, Ireland and Portugal are in fact the only EU member states.

The Eurozone is just as fragmented as the EU. In addition to Germany and France, each of which has its own seat on the Executive Board, the 13 other countries of the Eurozone are spread over a total of six different voting groups. Thus nine of the 24 Executive Directors on the Executive Board represent the interests of the Eurozone, at least in theory. It hardly needs to be said that this cannot lead to a coherent perception of the Eurozone as an important voice in the concert of the world's currencies.

"A strategy of 'less might be more.'"

It is a fact that there is no dearth of either suggestions or appeals in Europe and elsewhere to do something about this state of affairs and to consolidate either the memberships and/or the EU voting rights in the IMF.

It is a sad fact that the EU has not only stymied itself in this question, but is holding up the timely governance reform of the whole IMF. This is supposed above all to enable the rising emerging economies and third-world countries to play an appropriate part in the IMF, and in this way to integrate them better into the global economy.

III

Europe hinders IMF reforms

In formal terms Europe is the largest power bloc within the IMF. The votes of the 27 EU member states currently add up to about 32 per cent, which is almost twice as much as the U.S. (just about 17 per cent). Even the Eurozone on its own with its share of almost 23 per cent towers above what is currently the largest and most influential member country, the U.S.

Nevertheless the real balance of power in the IMF turns the formal one upside down. The U.S. is the only country to have its own veto right in the IMF. In this way it has far more influence than the "patchwork" EU. In the final analysis less could thus turn out to be more for the EU and the Eurozone if they manage to consolidate their national voting rights, and then speak and vote with one voice.

In any case, scenarios leading to a globally more equitable representation of all countries in the IMF and one which is more in line with the real state of affairs are more realistic than pipe dreams of a "European superpower." The rising emerging economies and third-world countries should get a better deal, especially China and India. Here Europe could pave the way for genuine IMF governance reform.

The EU should embark on a strategy of "less might be more." By consolidating its national voting rights it could increase its influence significantly despite having a lower number of votes. At the same time a considerable number of votes would become available for distribution to the emerging economies and third-world countries. Thus the EU would become an opinion leader and the moving force of IMF reform, which to this day has failed to materialize on account of unwillingness within the EU to overcome national egoism.

Without incurring costs of any kind Europe could make a considerable contribution to a more equitable global economic order and facilitate the integration of the emerging markets and third-world countries into the structures of the globalized world. If such reforms are not implemented, the emerging economies will lose interest in those institutions connected with globalization which refuse to allow them to participate in an appropriate manner. The IMF's dramatic decline would continue. The global economy and its institutions would disintegrate and the importance of regional power blocs would gain ground at the expense of the multilateral approach of an integrated global economy. The almost complete refusal of emerging economies and third-world countries to avail themselves of financial help from the IMF is a foretaste of this. So are the discussions about the foundation of an Asian monetary fund designed to compete with the IMF.

Letter of Dismissal for the IMF


International Monetary Fund
700 19th Street, N. W.
Washington, D. C. 20431
USA

26 March 2008

To the Executive Directors of the IMF and their Governments

[...] We write to express our concern that the proposed reforms fall far short in addressing the challenges facing the IMF in its evolution toward a truly global institution with more balanced and inclusive representation and voting power. In the absence of stronger reforms, the emerging market and developing economies will not be sufficiently engaged in the Fund to help generate the energy and dynamism required to strenghten the global financial system and to renew the leadership role of the IMF in the global economy. [...]

Sincerely yours

N. Birdsall
Center for Global Development

C. Bradford, R. Bryant, H. Kharas, J. Linn
The Brookings Institution

J. Griesgraber
New Rules for Global Finance Coalition

E. Truman, J. Williamson
Peterson Institute for International Economics

Source: http://www.brookings.edu

For this reason leading U.S. think tanks have quite rightly condemned the well-nigh total failure of the IMF reforms in April 2008. They believe that only far-reaching reforms will make it possible to renew the leadership role of the IMF as it grapples with attempts to determine the future shape of globalization. There was also a great deal of criticism of the Europeans who, on account of their inability and unwillingness to consolidate their own position within the IMF, had once again made it impossible to introduce reforms.

It would not be difficult for the Europeans to assume a leadership role in the global economy. They merely need to seize the opportunity. Two approaches suggest themselves:

- The EU consolidates its 27 current national memberships and applies for community membership of the IMF. Such a communitarization of international monetary policy would certainly require an amendment of the EU treaty. The Treaty of Lisbon does not provide for such a step either. Furthermore, the introduction of EU membership would make it necessary to change the IMF statutes, and this hinges on whether or not the U.S. decides to make use of its veto. Since both an amendment of the EU treaty and a similar amendment of the IWF statutes are currently not on the cards, the distant goal of EU membership cannot be among the suggestions which could be implemented at short notice. The same arguments speak against the short-term goal of a community membership of the Eurozone in the IMF.

- An alternative to community membership is the establishment of a European voting group within the IMF. Since voting groups in the IMF are based on the volition of their member states, no one could stop the Europeans from such a move. A European voting group could be established on the basis of political will and as a simple bilateral agreement of the countries concerned. It would not be necessary to change the EU treaty, nor would it be imperative to change the IMF statutes.

IV

One Currency, One Voice: A Proposal

In a political declaration the 15 member countries of the Eurozone should first of all articulate their intention of being represented in future within the IMF by a single euro rights group. Its consolidated voting rights would then be in the hands of a single representative on the Executive Board of the IMF. For two reasons this approach is preferable to a voting group comprising all 27 EU countries:

- On the one hand the interests of 27 EU countries with 14 different currencies are much more difficult to reconcile in a single voting group than the 15 euro countries with only one currency.

- On the other hand, the nature, task and role of the IMF as a *monetary* fund suggests making the Eurogroup, which constitutes a single currency area, the criterion for a European voting group within the IMF, and not Europe as a political union and integrational community.

A euro voting group in the IMF would be based on the principle of "one currency, one vote." Its voting rights would from the start turn it into a far more effective champion of the interests of the Eurogroup than is the case today.

The voting rights of a Eurogroup of this kind should lie far beneath the total of the 15 national voting rights which currently amount to about 23 per cent, though the Eurogroup would not necessarily be less influential as a result. On the contrary, even with a share of what would still be more than 15 per cent, the Eurogroup would in future have a veto similar to that of the U.S. At the same time the Eurozone would create considerable room for manoeuvre for a global redistribution of capital quotas and voting rights in the IMF. If there were a suitable reform of the way in which quotas are calculated, it would be the emerging economies and third-world countries which would profit most.

However, even if the establishment of a euro voting group meant that the national memberships in the IMF would continue for a while: As national representatives at the IMF, the ministers of finance benefit from the present situation.

With a carefully considered proposal, which takes into account the interests of the emerging economies and third-world countries, the Europeans would be assuming global responsibility. The economic influence of the new global currency would be channelled politically in the interests of a more equitable und thus a more legitimate institutional governance of the global economy, and the Eurozone would have come a long way towards becoming a politically important actor in the field of international finance and monetary policy.

V

A Franco-German Initiative?

Within the euro voting group the initiative leading to the establishment of a European voting group would have to come from France and Germany, the only two euro countries which currently have their own seats on the Executive Board of the IMF. Such an initiative can hardly be expected to come from the finance ministries. As national representatives in the IMF they are the ones who profit from the current state of affairs. Questions of personal prestige and the prospect of losing an important international stage means that they are likely to back-pedal on this issue. It is thus up to the heads of state and government. On this occasion, as in the case of monetary union, the initiative should come from them.

"Questions of personal prestige hinder reform."

French president Nicolas Sarkozy came out in favour of a seat for Euroland in the IMF during the campaign for the French presidency. Angela Merkel, the German Chancellor, would simply have to remind him of his promise. The current chairman of the Eurogroup, Jean-Claude Juncker, is one of the political advocates of the consolidation of the Eurogroup in the IMF. He is supported by EU monetary commissioner Joaquin Almunia and the current managing director of the IMF, Frenchman Dominique Strauss-Kahn. That should actually be enough for a "coalition of the able and the willing."

Junckers' term as chairman of the Eurogroup finishes at the end of the year. The rules of the Eurogroup state that for the time being the prime and finance minister of Luxembourg, who has held this office since 2005, cannot be re-elected. Nevertheless there are persistent calls that Junckers should continue after the end of the year, partly because a candidate of a similar stature is not in the offing. Junckers might well be persuaded to stay on, since his prospects of becoming the President of the EU Council have receded as a result of the Irish rejection of the Treaty of Lisbon. However, he should accede to these requests only if certain conditions are met, and one of these could relate to the representation of the Eurogroup in the IMF. Thus a "lex Juncker" pertaining to his re-election to the chair of the Eurogroup could combine what is desirable in terms of human resources with what is politically apposite.

However, if ideas of national prestige and bureaucratic egoism continue to paralyze the power of the political leadership, it would once again be necessary to turn to the parliamentarians. For example, the national governments could be requested by an all-party private members' bill, both in the European Parliament and in the national parliaments, to consolidate their representatives in the IMF in favour of a euro voting group. This would also send out a positive signal in the run-up to the European election year in 2009.

But when all is said and done, the euro has not yet reached the age of majority. It has only just become a "teenager" who may be rather precocious in economic terms, but politically (until further notice) continues to be a dwarf. However, quite a lot (see above) can be done to change this state of affairs.

The author is Director of the Program Europe's Future at the Bertelsmann Stiftung.

For Further Reading:

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Responsible

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ISSN 1865-7451

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