

“L’union Européene, acteur mondial, après la crise et après le traité de Lisbonne”

Colloque CEPII/CERI

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*Les opinions exprimées ici le sont à titre personnel et n’engagent pas la BCE



For Mr Kissinger:

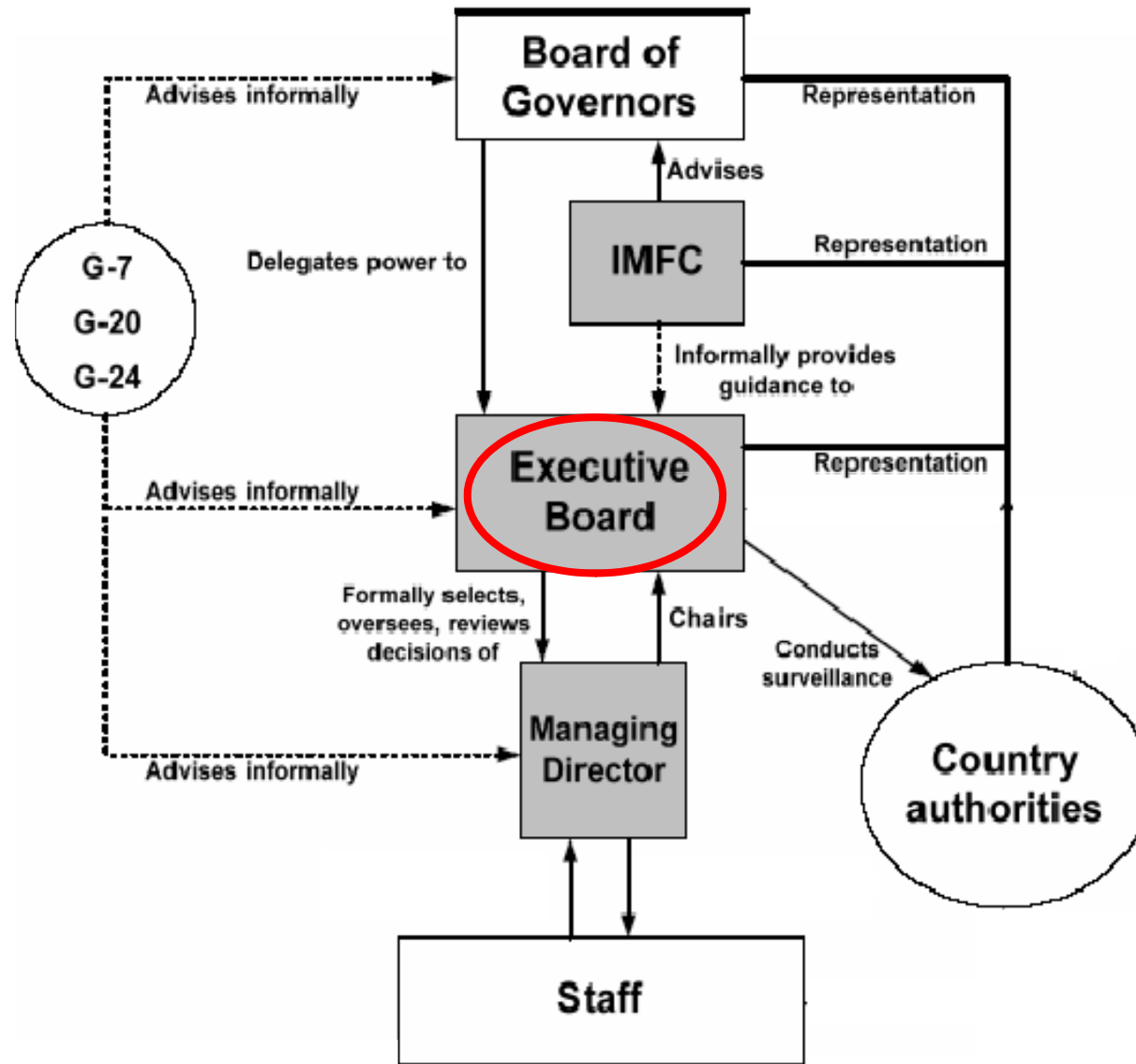
0049 69 13440

**The phone number for Europe on
monetary matters**

Single European voice on monetary matters:

- **Bilateral relations US, JP, China, ...**
- **G7**
- **G10**
- **G20**
- **BIS (Global economy meeting, etc.)**
- **IMF**

IMF governance structure



Source: IEO

IMF Executive Board

Size and composition

- **24** Executive Directors; chaired by the MD
- **5** EDs appointed: **US, Japan, Germany, France, UK**
- **3** EDs elected: **China, Russia, Saudi Arabia**
- **16** EDs in constituencies with 4-24 countries

Main functions

Global systemic and country surveillance

IMF policy and Review of IMF programmes

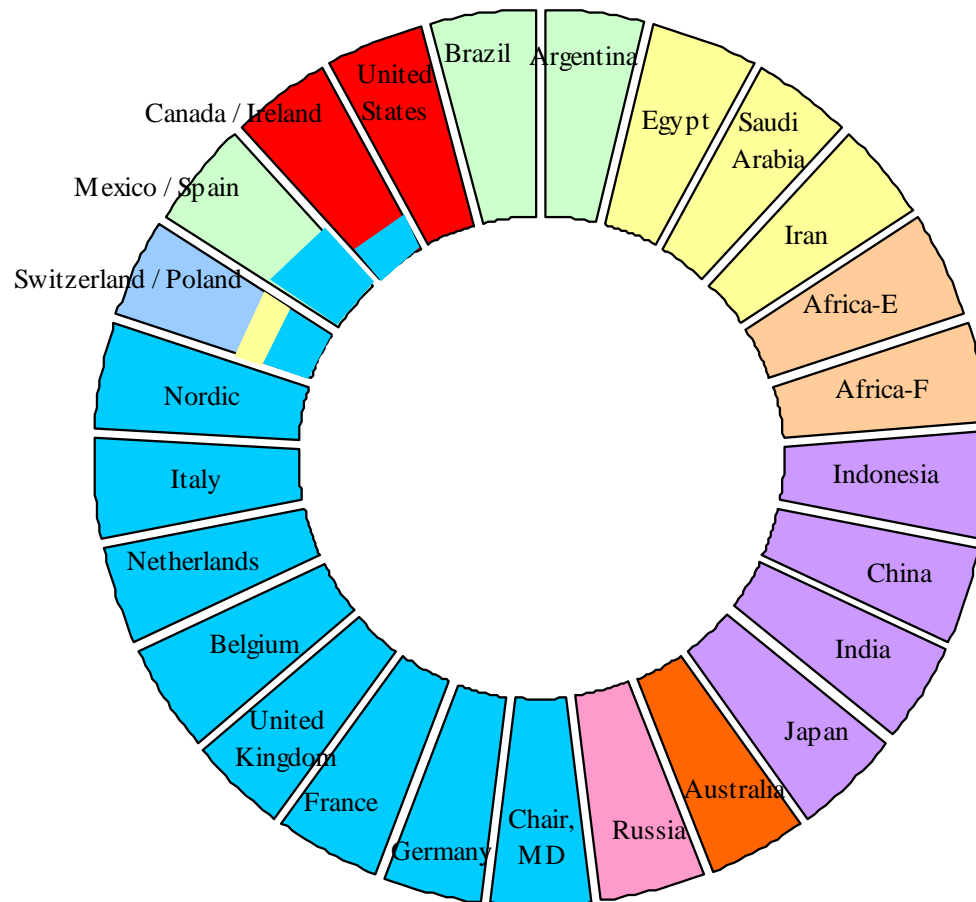
Technical Assistance

Standards and codes, reporting

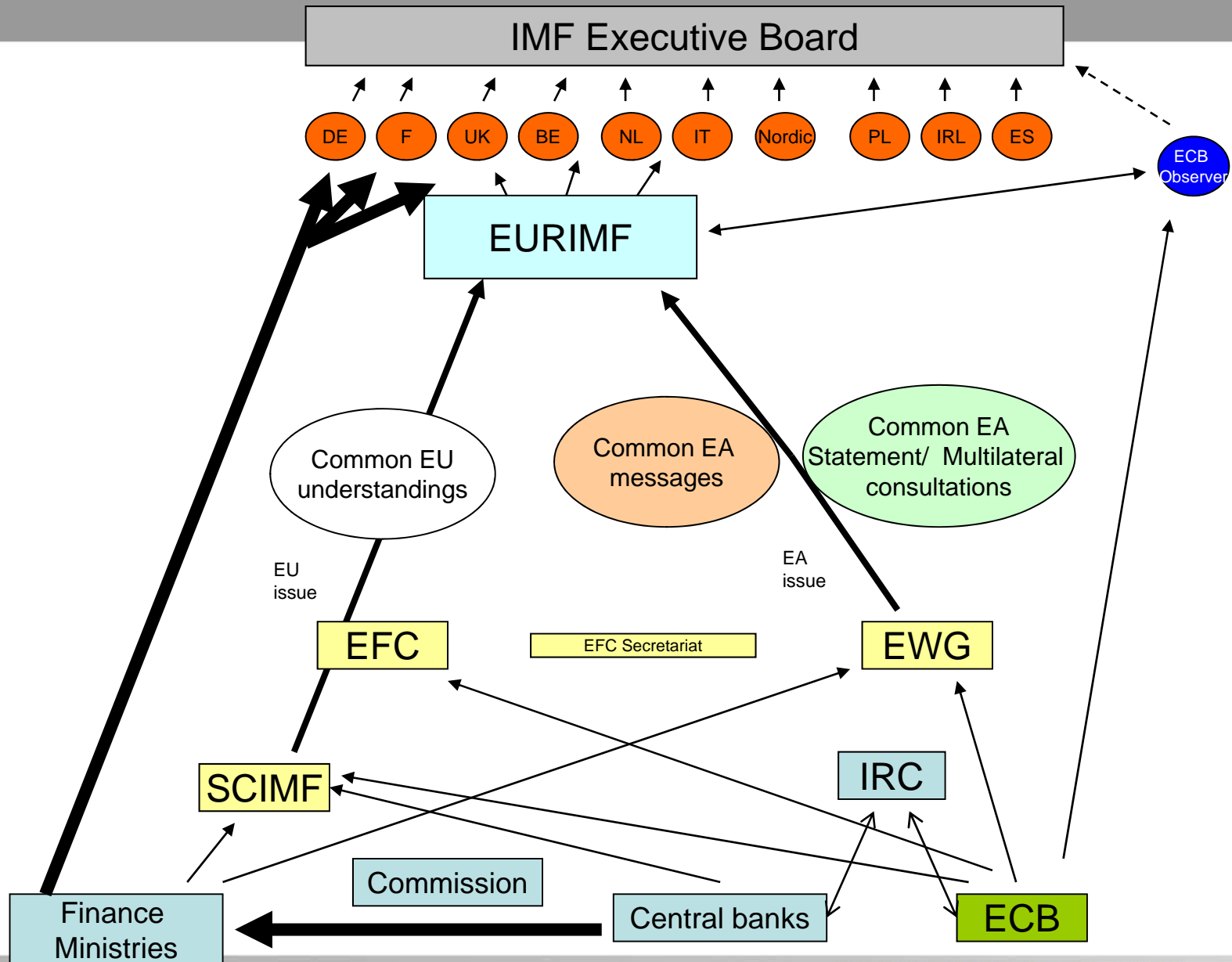
Europe's three difficulties

1. **Perceived to be strongly overrepresented**
2. **Heterogeneous representation**
3. **Complex coordination**

1st difficulty: Perceived to be strongly overrepresented

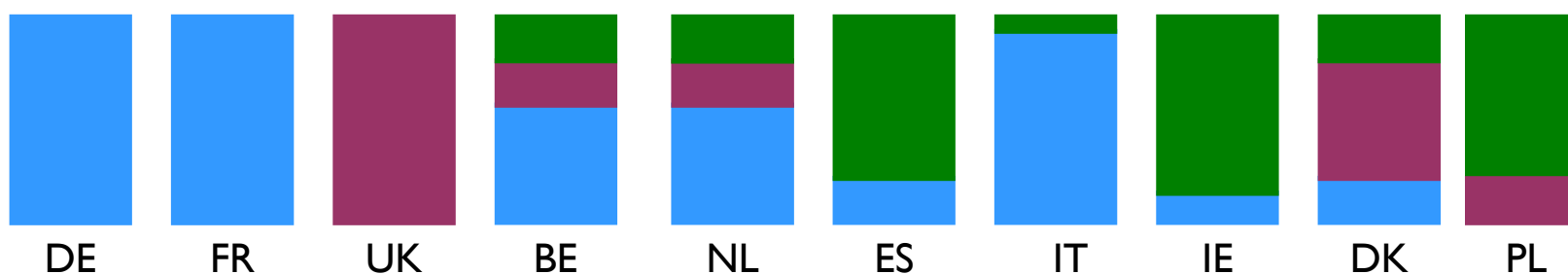


2nd difficulty: Complex coordination process



Single euro area voice is complex

The euro area in the IMF Board



Chair	EA	EA	EU	EA	EA	Non	EA	Non	EU	Non
EA majority	yes	yes	no	yes	yes	no	yes	no	no	no
EA countries	1	1	-	5	2	1	4	1	2	-

The issue of influence

	Voting share	Voting Power For decisions requiring 50% majority (Banzhaf index)	Blocking power for decisions requiring 85% majority (Coleman index)
Blue	49%	33%	100%
Red	49%	33%	100%
Pink	2%	33%	0%

IMF basic voting shares and powers

Table 1: Current voting shares and voting powers in the IMF

Constituencies ^a	50% majority threshold			85% majority threshold	
	Voting share	Voting power	Blocking power	Voting power	Blocking power
United States	17.08	21.48	65.46	6.65	100.00
Japan	6.13	5.81	17.71	5.84	87.87
Germany	5.99	5.68	17.31	5.79	87.02
Belgium	5.14	4.87	14.84	5.36	80.67
France	4.95	4.69	14.29	5.25	78.97
United Kingdom	4.95	4.69	14.29	5.25	78.97
Netherlands	4.84	4.59	13.97	5.18	77.93
Mexico	4.27	4.04	12.32	4.78	71.92
Italy	4.18	3.96	12.06	4.65	69.93
Canada	3.73	3.53	10.76	4.30	64.60
Norway	3.51	3.32	10.12	4.10	61.72
Korea	3.32	3.14	9.57	3.93	59.10
Egypt	3.26	3.08	9.40	3.87	58.24
Saudi Arabia	3.22	3.05	9.28	3.83	57.67
Malaysia	3.17	3.00	9.14	3.79	56.94
Tanzania	2.99	2.83	8.62	3.61	54.27
China	2.94	2.78	8.47	3.56	53.50
Switzerland	2.85	2.70	8.21	3.47	52.12
Russia	2.74	2.59	7.89	3.35	50.39
Iran	2.47	2.34	7.12	3.06	46.01
Brazil	2.47	2.34	7.12	3.06	46.01
India	2.39	2.26	6.88	2.97	44.68
Argentina	1.98	1.87	5.70	2.50	37.61
Equatorial Guinea	1.44	1.36	4.15	1.85	27.81

Why the G7 is so powerful

Table 2: G7 coalition

Constituencies	Voting share	50% majority threshold		85% majority threshold	
		Voting power	Blocking power	Voting power	Blocking power
G7	47.01	99.63	99.99	10.78	100.00
Belgium	5.14	0.03	0.01	8.07	74.82
Netherlands	4.84	0.03	0.01	7.72	71.63
Mexico	4.27	0.02	0.01	7.00	64.92
Norway	3.51	0.02	0.01	5.93	55.02
Korea	3.32	0.02	0.01	5.64	52.31

G10 not needed for additional voting power

G20 adds legitimacy

Why a coalition of developing countries did not rival the G7

Table 5: G11 coalition

Constituencies	Voting share	50% majority threshold		85% majority threshold	
		Voting power	Blocking power	Voting power	Blocking power
G11	30.36	41.40	80.44	12.17	100.00
United States	17.08	10.12	19.79	12.16	100.00
Japan	6.13	5.70	11.05	8.65	69.78
Germany	5.99	5.57	10.71	8.49	69.13
Belgium	5.14	4.77	9.24	7.44	62.06
France	4.95	4.59	8.95	7.20	58.84

Table 6: G7 and G11 coalition

Constituencies	Voting share	50% majority threshold		85% majority threshold	
		Voting power	Blocking power	Voting power	Blocking power
G7	47.01	81.41	96.83	34.34	100.00
G11	30.36	3.45	4.76	34.34	100.00
Belgium	5.14	3.11	4.76	7.28	21.43
Netherlands	4.84	3.04	4.76	6.83	20.10
Norway	3.51	2.48	4.76	4.88	14.37
Korea	3.32	2.38	4.76	4.61	13.56
Switzerland	2.85	2.10	1.59	3.94	11.60
Russia	2.74	2.03	1.45	3.78	11.14

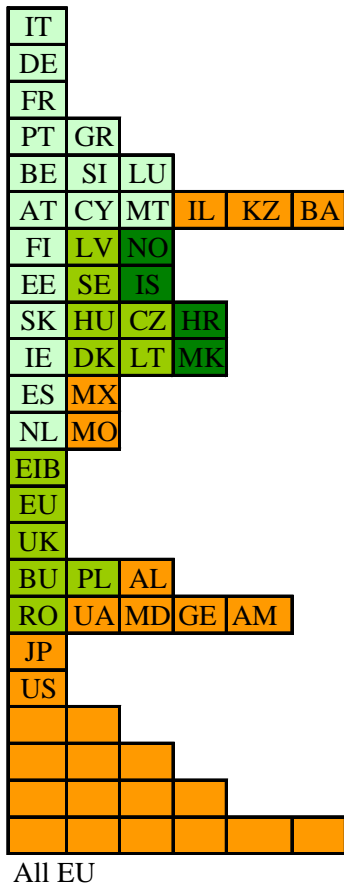
Why a euro area seat would be so attractive

Table 9: A euro area countries' coalition

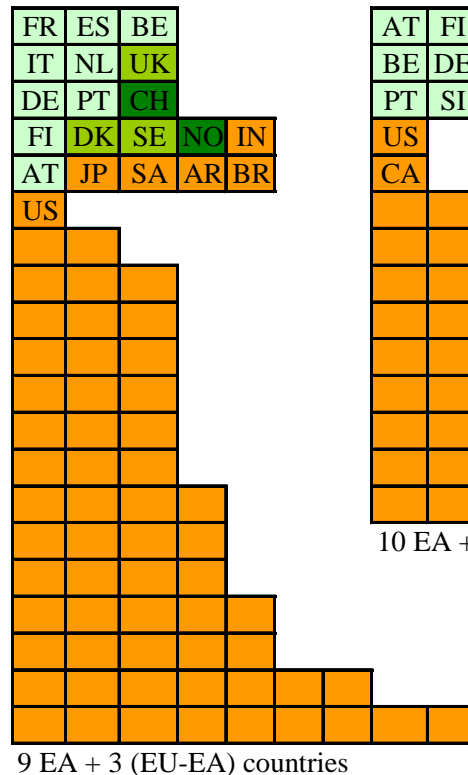
Constituencies	50% majority threshold			85% majority threshold	
	Voting share	Voting power	Blocking power	Voting power	Blocking power
Euro area (12)	22.91	25.36	88.06	8.04	100.00
United States	17.08	13.17	45.73	8.04	100.00
Japan	6.15	6.32	22.64	7.07	88.01
United Kingdom	4.95	5.15	17.88	6.32	78.61
Ex-Canada	3.33	3.40	11.81	4.70	58.49
Korea	3.32	3.39	11.78	4.69	58.34
Egypt	3.26	3.33	11.56	4.62	57.45
Saudi Arabia	3.22	3.29	11.41	4.57	56.91
Malaysia	3.16	3.22	11.19	4.50	55.99
Tanzania	2.99	3.05	10.58	4.29	53.35
China	2.94	2.99	10.40	4.22	52.57
Ex-Denmark	2.92	2.97	10.32	4.20	52.25
Ex-Mexico	2.86	2.91	10.11	4.12	51.29
Switzerland	2.85	2.90	10.07	4.11	51.13
Russia	2.74	2.79	9.68	3.97	49.36
Iran	2.47	2.51	8.71	3.61	44.91
Brazil	2.47	2.51	8.71	3.61	44.91
Ex-Netherlands	2.46	2.50	8.67	3.60	44.74
India	2.39	2.43	8.42	3.50	43.57
Ex-Belgium & Italy	2.13	2.16	7.50	3.14	39.12
Argentina	1.98	2.01	6.97	2.93	36.51
Equatorial Guinea	1.44	1.46	5.06	2.16	26.87

How European countries cooperate elsewhere

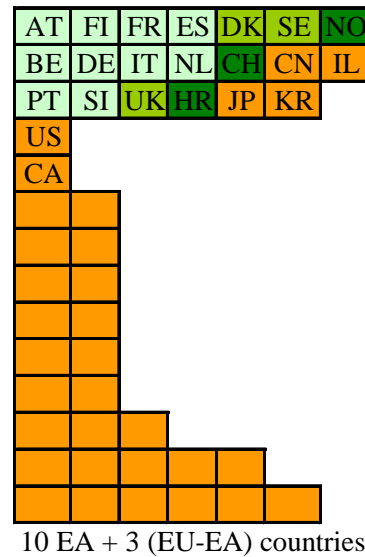
EBRD (23 seats)



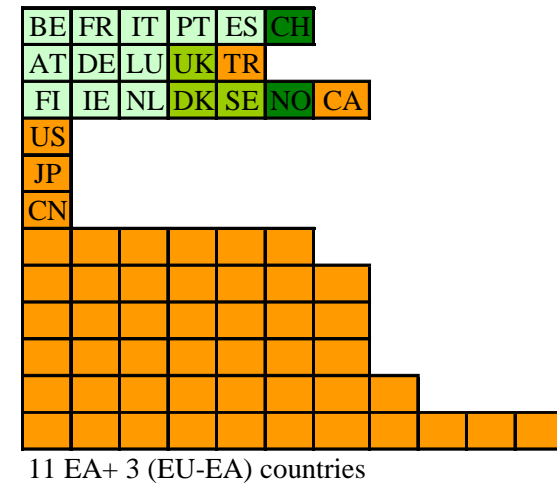
AfDB (20 seats)



IABD (14 seats)



ADB (12 seats)

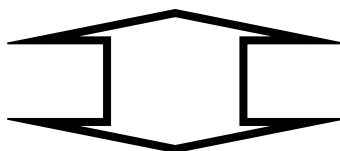


Reform is near

- **US blockage to extend the constellation of 24 chairs (rather than the 20, as in Articles of Agreement) will force reform**
- Shift of seats (and voting shares) from advanced to emerging economies clear
- European chairs under scrutiny
- Main question: **Will it be a 'compression' of the current arbitrary and complex arrangement or will it be conducted with political and economic logic and a certain vision?**

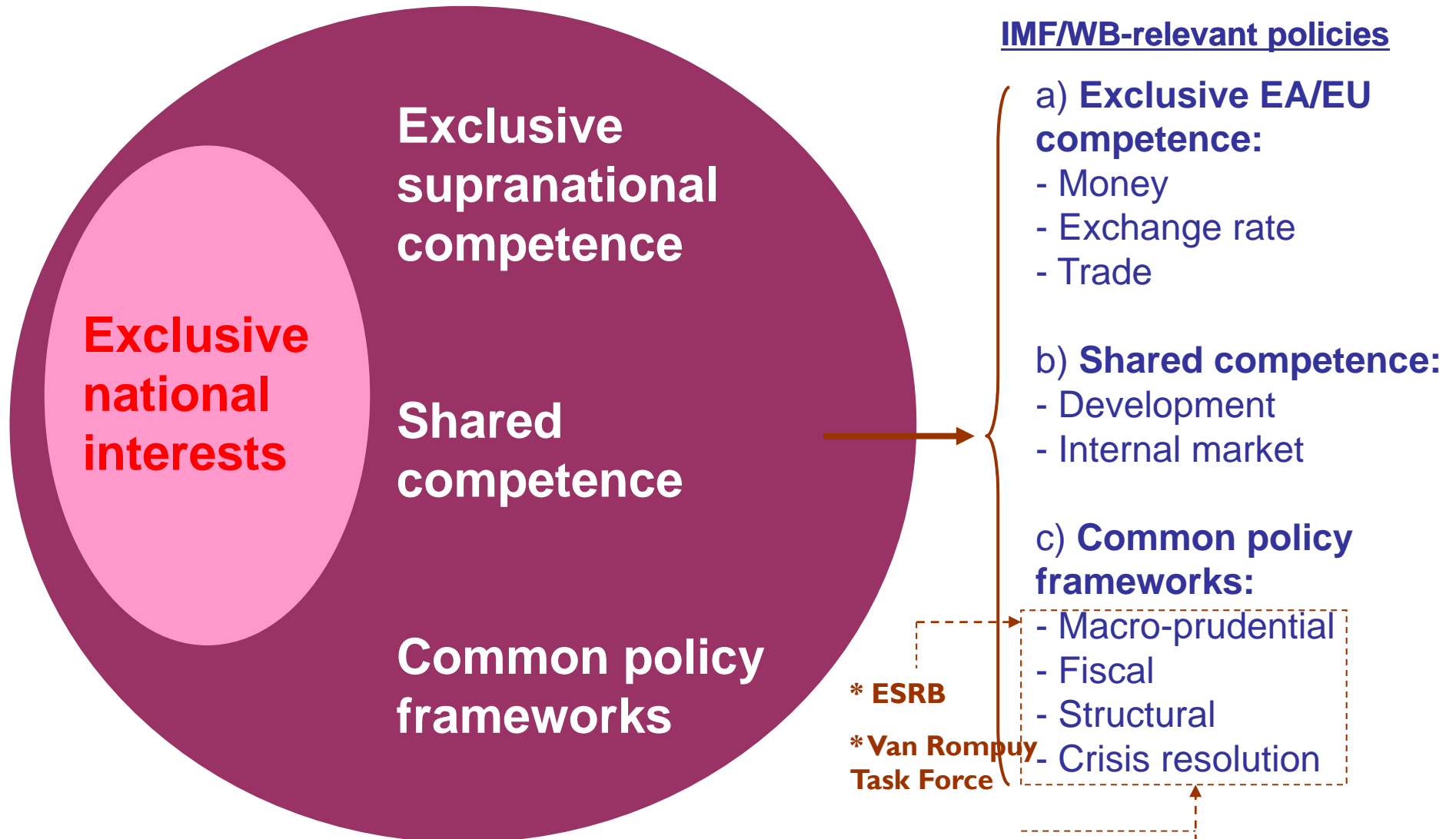
Why change is so difficult at EU level

- **EMU@10: “Europe punching below its weight”**



- **“Status quo functions well” (EDs)**
- **“Mixed constituencies facilitate consensus building”**
- **“The Fund is a country-based institution”**
- **“No constitutional basis for cohesive representation”**
- **“Treaty provisions unclear on non-monetary policy issues”**

Why the closing of ranks is increasingly justified



The broader context of economic policies in the EU

The 3 pillars of Economic and Monetary Union

E

M

U

Fiscal policies;
Stability and
Growth Pact

Macroeconomic
policies,
imbalances,
competitiveness

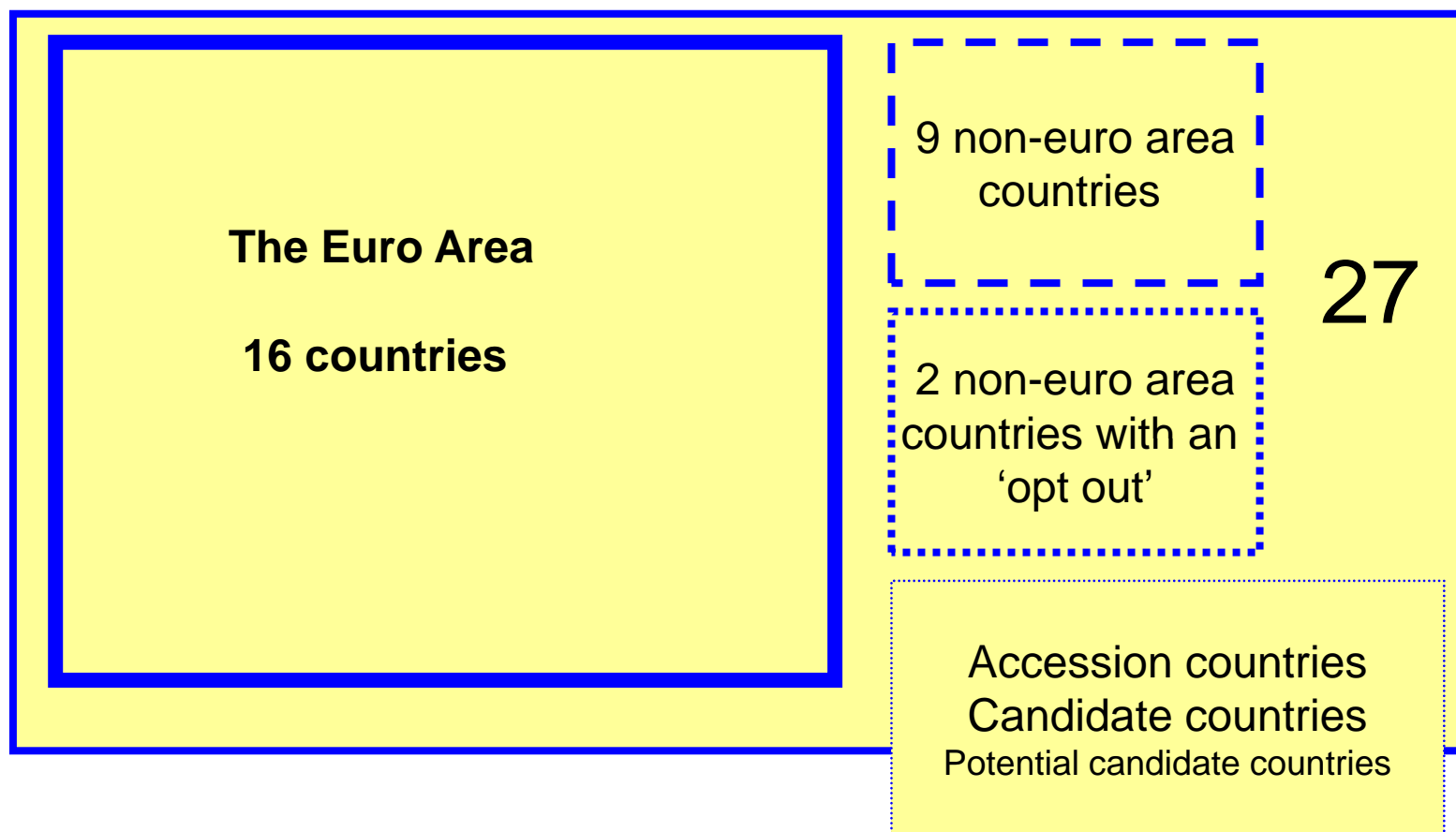
Price stability:
Euro area
inflation
over 12 years
1.97%

Exchange rate:
1.36 to USD
(1.17 at launch)

The political and
and democratic
dimension
of European
Integration

The European
dimension of
national
policies

The complexity of the European Union



- Formal structures only at 27: Commission at 27, Single Market at 27
- With 5% of ratification risk per country, EU-27 ratification: 25% success rate
- With 16 countries in euro area: 1 national election every 3 months!

Challenges ahead

- **Need to strengthen “E” pillar**
 - **Governance reform**
 - **Fiscal sustainability**
 - **Macroeconomic policies**
- **Need to strengthen “U” pillar**
 - **European Parliament made quantum leap**
 - **European dimension in national policy context**

Annex

Sources and further reading:

L. Bini Smaghi (2005): IMF Governance and the Political Economy of a Consolidated European Seat, Institute of International Economics, Washington

J. Reynaud, C. Thimann and L. Gatarek (2007): A New Voting Power Index Applied to the International Monetary Fund ECB working paper.

M. Skala, C. Thimann and R. Wölfinger (2007): The Search for Columbus' Egg – Finding a New Formula to Determine Quotas at the IMF. ECB Occasional Paper.

C. Thimann, C. Just and R. Ritter (2009): Strengthening the Governance of the International Monetary Fund: How a Dual Board could raise Effectiveness and Legitimacy. Global Governance vol. 15 (2009).

Overview of voting power methods

The normalised Banzhaf (1956) index is one of the most widely used indices in coalition theory. It is computed in three steps:

Suppose a set of individual voters $N = \{1, 2, \dots, n\}$, where all possible coalitions between voters are identified (e.g. each voter alone and each possible coalition of 2 to n members). Coalitions S are subsets of the set of voters, $S \subseteq N$. The number of possible coalitions rises exponentially with the number of voters, as the number of all possible subsets of N equals 2^n . In the example of the IMF Executive Board, with 24 voters (constituencies), the total number of coalitions is 2^{24} , or over 16 millions.

1. All winning coalitions are selected, i.e. coalitions that meet the majority voting threshold. Formally, we introduce a so-called characteristic function V that assigns to any possible coalition S a value of 1, $V(S) = 1$, if the coalition is winning and a value of 0, $V(S) = 0$, if it is not winning.
2. For each winning coalition S , the critical voters are identified. If the coalition S is winning, $V(S) = 1$, but loses its majority if the support of voter i is withdrawn, $V(S \setminus \{i\}) = 0$, then this voter i is said to be a critical voter in this particular coalition. Voter i is also said to have a negative swing in coalition S . For each voter i , we now compute the number of negative swings on the number of coalitions in which it is a critical voter, as: .
3. The voting power index of a voter i calculated according to the above methodology is defined as the ratio of its number of negative swings over the total number of negative swings of all voters. Formally the index is given by the following formula:

$$\beta_i = \frac{\sum_{S \subseteq N} [V(S) - V(S \setminus \{i\})]}{\sum_{j \in N} \sum_{S \subseteq N} [V(S) - V(S \setminus \{j\})]}$$

We also measure the effect of blocking minorities by computing the Coleman preventive power index (1971), which measures the capacity of a voter to block a vote. The index is defined as the number of winning coalitions where voter i is a critical voter divided by the number of all winning coalitions. Formally voter i 's Coleman preventive power index or blocking power index P_i is given by the following equation:

$$P_i = \frac{\sum_{S \subseteq N} [V(S) - V(S \setminus \{i\})]}{\sum_{S \subseteq N} V(S)}$$

The interpretation of the Coleman index is not as intuitive as the previous one and does not sum to 100%. It can be possible that one or several constituencies reach by themselves a 100% score, if it has a veto power.