Inside *Baseball*

How to improve the European Union's role at the World Bank and International Monetary Fund.

BY FRITZ FISCHER

The Federal Republic of Germany is the fourth-largest shareholder in the Bretton Woods institutions after the United States, Japan, and China, and Germany's original role further increased after its reunification in 1990 with the former East Germany and that country's then population of sixteen million. After reunification, the German capital moved to Berlin and now sits in the middle of Europe. When the former communist Eastern European countries joined the Bretton Woods institutions, their additional hundred million residents brought the "United States of Europe" closer to reality. When the Russian Federation joined in 1992 (China was already an important member), the International Monetary Fund and the World Bank finally became truly worldwide organizations. The sheer magnitude of the sudden enlargement took the two institutions by surprise, and they tried their best to somehow incorporate the many new members into their systems.

Against this background, it is appropriate to examine in more detail the roles and potential among the major shareholders, and at the same time start a process to eventually enable the European Union, at present divided among seven different constituencies, to speak ultimately with one voice. This is a Herculean task and will require much diplomacy and understanding within these two institutions.

HOW GERMANY COULD IMPROVE

It is historically praiseworthy that the Federal Republic of Germany became a member of the Bretton Woods institutions in 1952, only seven years after the end of World War II. Unlike other European countries at the time,

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Germany did not request financial assistance and concentrated on the Marshall Plan, which largely enabled an unprecedented economic miracle. Germany is currently the fourth-largest shareholder in the institutions, followed closely by France and the United Kingdom. Germany should now take time to examine the different structures of its Board representations and perhaps improve its own efficiency and influence.

On the level of governors, several top members are represented by their finance ministers. But although the International Monetary Fund and the World Bank are international organizations, the United States as the major founder has considered them an important instrument for its own foreign policy, at times to the chagrin of affected countries.

In the case of Germany, its governor for the World Bank is its development minister. At the IMF, the President of the Bundesbank serves as governor and the Germany's minister of finance as alternate. While most countries have the same minister serving as governor at both institutions and are also represented by their executive directors in the two Boards, Germany does not have such a structure, and—although both institutions are across the street from each other in Washington—the executive directors come from different ministries. One representative might not know what his or her colleague in the other institution is doing, although often both institutions discuss the same countries at the same time.

At present, Germany's executive director in the IMF comes from the Bundesbank and so does its governor, although the Bundesbank is now part of the European Central Bank and therefore is no longer as independent and powerful as it was when Germany had its own currency. As a consequence, the German finance minister presently acts as alternate governor.

Another important characteristic among some top shareholders is also worth mentioning. France, for example, has the same person serving as executive director in both Boards, and that person moreover is integrated into the local embassy. This reflects the notion that the two institutions with their tremendous financial resources are practically engaged in foreign policy, so that their activities should be an integral, informatory part of national foreign services. In the case of Germany, such participation does not exist and should be considered.

By carefully studying the experience of other key World Bank and IMF member countries, Germany could improve its impact in these two important institutions. Such an examination should also include which suitable departments at home, such as the transport ministry, should if necessary assist their Boards in Washington with their expertise.

Changes could be made unilaterally, without the support of other EU members or negotiations with the World Bank and IMF.

ONE VOICE

As mentioned, one result of the unexpected increase in membership in recent decades is the fact that the EU countries in the World Bank are presently split up among seven different constituencies, in some cases a mixture of donor and borrowing countries. This makes any EU coordination impossible and weakens the region's influence. In retrospect, the influx of new members would have been an ideal occasion to propose a scheme which would have created more unity and cohesion for the European Union.

Now, several decades later, it is much more difficult to remedy the present situation, although since the European Union's Treaty of Lisbon entered into force in 2009, it has full legal personality. Since then, the European Union has emphasized on many occasions that EU members should increasingly step up their efforts to speak with one voice internationally. It is strongly suggested that the World Bank and IMF should and could serve as a prime example of more EU unity in international organizations. Such an endeavor will be a tremendously complex task and require careful preparation within the European Union, along with convincing other shareholders. A substantial number of countries, especially in the Balkan region, are waiting to become EU members. The potential for a greater unity among EU members is growing.

The European Union must shrink in order to become more efficient.

It would be presumptuous at this stage to make any concrete proposals about how to pursue this task. But as Germany in other international areas has been repeatedly encouraged to show more leadership, it should—as the uncontested major power in the European Union and situated in the geographical middle of Europe—initiate a formal request to the EU authorities to launch such an initiative, then discuss it with its partners and work out a plan of procedures so that a more detailed formal proposal can be addressed to the other members of the Bretton Woods institutions, particularly the United States as the most prominent shareholder and founder. Such an official and unanimous request by all twenty-seven EU members should be at all times a powerful driving force in achieving the desired goal of an EU speaking ultimately with one voice. But after having made such initial proposal by Germany to the rest of the European Union, it would then be essential to internally develop a carefully worded program and

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agree on an experienced high-level EU representative for the negotiating working group in Washington. It is equally important that all EU members fully and continuously stick to such a joint proposal regardless of setbacks and obstacles.

In a preliminary overview, one might think that for a final appropriate unity among EU members, the actual situation in Washington does not appear too bad. Besides the two important members, Germany and France with their strong position as single shareholders (and who might wish to keep their seats), other mixed constituencies like Scandinavia and the Baltics, Italy, Netherlands, and Belgium already have several EU members in their group, besides some borrowing countries. But Poland, Spain, and Ireland stand out in other groupings and might need to move. Also, some constituencies contain both donor and borrowing countries which would have to be harmonized.

This would suggest that at present we might end up with some twenty EU members in six suitable EU constituencies. But this appears totally unrealistic, as it brings up an important question: Should the European Union aim instead for one single EU office? This would be gigantic in size and thus not feasible. Another question: Should all twenty-seven members still have one representative per country in such a joint office which would in addition have to grow if more countries join the European Union in the future? A certain rotation might be possible, for example, one executive director for Scandinavia and the Baltics, and so forth. But this would also bring up another question: If one speaker ultimately represents the whole European Union, would there be enough work for all twenty-seven ordinary EU executive directors and an equal number of alternates? After all, one speaker for the whole European Union would constitute enormous savings for the EU and Bank/IMF staff as well as for all other non-EU Board members.

At this preliminary stages, the question may be asked whether the European Union should have above all at least one larger liaison office for all EU members. The United Kingdom as an important co-founder of the Bretton Woods institutions would be an ideal candidate for such an office, but unfortunately is no longer an EU member. Could Germany and France head such an office jointly?

Such a liaison office would primarily coordinate the single EU voice on the Board, and ask responsible members of the group for helpful contributions to a joint voice. Such an office would then try to agree on a joint report to be sent to their capitals (hopefully in English).

As to the magnitude for a joint EU voice in the Board, it should be mentioned that the Board would often would consider projects approved with no discussion if no Board member asked for a discussion. In that context, one can luckily assume that—based on the existing practice—not all Board approvals necessarily need discussion. In that case, an EU intervention would also not be necessary. Such a liaison office would also be instrumental for the European Union to produce political papers about the Bretton Woods policies and future orientation and thus supplement proposals by the Bank's management or initiate new ideas.

One of the last questions at this stage is whether the World Bank Board should have close contacts with the local office of the European Commission in Washington,

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since—together with additional bilateral assistance by some EU members—the European Union is the largest donor. Also, some sort of regular contacts seem to be in place with the major regional development banks.

In short, the European Union must shrink in order to become more efficient. And EU shareholders' figures might even be somewhat downgraded in view of the large EU intra-trade. This shrinkage would allow developing countries more Board seats that are presently occupied by EU constituencies. This would be very much appreciated. Developing countries are unhappy that the donor countries have a majority of the seats on the Board. One might also consider how to give more weight to some major shareholders with huge populations, such as lndia, Brazil, and South Africa, a subject which is also discussed in the context of a more balanced international representation in the UN Security Council.

Such a restructuring of the European Union's representation in the Boards, along with greater weight and recognition of the developing and emerging as well as transforming countries, might be welcomed by a clear majority on all sides.

MORE EU UNITY

The European Union was deservedly awarded the Nobel Peace Prize in 2012 since it is not a military but a profoundly peaceful organization aimed at democratic and regional union with equal rights and opportunities for all its citizens and people. The European Union in terms of population and economic power is the largest organization in the world and assists developing, emerging, and transforming countries through its successful social market economy and regional cooperation. It is among the largest and most reliable donors for assistance to countries in need and also for international organizations, thus supporting their independence.

The European Union—as its endeavor for more unity in the Bretton Woods institutions underlines—is based on these principles, and it appreciates the support of the international community in its plan for a greater role in these and other international and regional organizations, with a possible focus on more influence through increased EU unity at the World Bank and the IMF.

Let's hope the European Union finally starts the ball rolling. ◆