

Title: Getting a Seat at the IMF Executive Board Table

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Paper presented to the ISA Annual Conference, San Francisco, March 2008

Abstract:

How are seats allocated on the International Monetary Fund's (IMF) Executive Board? Are seats determined by bureaucratic interests, strategic power politics, or by a combination of the two? The theoretical debate on this issue is lively, with hypothesizing taking place on every front. What is sorely lacking, however, is empirical evidence of actual practice. Developing an evidence-based understanding of the manner in which IMF member states gain access to seats at the Executive Board is particularly crucial now, given the centrality of this issue to current debates about the very future of the IMF itself. As part of a multi-case study, this paper will present historical context to this current policy dilemma, illustrating the political process involved in getting a seat at the Executive Board in the cases of Russia and Switzerland.

Introduction

Created in 1944 as part of the post-World War strategy to prevent another Great Depression, the International Monetary Fund (IMF) was ideally meant to coordinate financing and technical advice to member countries experiencing economic imbalances. Today, however, the IMF is frequently criticized for its failure to be accountable and legitimate in the eyes of its own members. Recently, many prominent policymakers across the world have argued that the IMF's legitimacy crisis can only be resolved by re-allocating the 24 seats on its Executive Board in a way that gives greater voice to countries that are seen to be underrepresented. Specific proposals involve decreasing and consolidating European representation and making the Executive Directors of Russia, Saudi Arabia, and China- which do not represent any other members and therefore have sole constituency-free seats- absorb other Fund members in their constituencies. Ideally, this could free up seats at the Executive Board and allow quota increases for those deemed underrepresented or unheard: emerging market economies and less developed countries.¹

While policy-makers have been discussing how to recompose the Executive Board, little academic attention has been devoted to this important organ of international monetary decision-making. Moreover, we have a rich literature on the study of international organizations that has not been applied to analyze how seats at the IMF Executive Board might be acquired. Three theoretical schools studying decision-making in international organizations are led by bureaucratic organization theories, realist theories, and bridging the two, delegation theories. Are IMF Executive Board seats determined by bureaucratic considerations, as organizational theorists would argue, or by strategic power politics, as realists would contend, or by a combination of external constraints and internal accommodation, as delegation theorists would purport? The theoretical debate on this issue is lively, with hypothesizing taking place on every front.

Bureaucratic organization theorists, further inspired by constructivism in political science, have argued that the IMF staff have intellectual dominance in the institution. IMF staff play a key role in shaping IMF policies, programs, and ultimately decision-making. The fusion of constructivism and organizational theories, spearheaded by the multi-case study by Barnett and Finnemore, has given stronger ontological and purposive value to international organizations. International organizations are viewed as 'social contexts' which have their own culture, norms, and idiosyncrasies that need to be considered when trying to explain IMF decision-making. There are 'unintended consequences' of IMF staff behaviour that produces mission creep or 'dysfunctional behaviour': policies and decisions that are not necessarily sanctioned by the IMF Executive Board. The IMF staff can often push forward their own agendas because they have respected economic expertise. They are in effect 'in authority' because the Executive Board has entrusted them with key functions and the staff are also 'an authority' because they create economic knowledge and ideas to which member countries are

¹ For a recent review of IMF reform debates, see Eric Helleiner and Bessma Momani, *Slipping into Obscurity: Crisis and Reform at the IMF* (Waterloo: Centre for International Governance and Innovation. 2007) and see Edwin Truman, *A Strategy for IMF Reform*. (Washington, DC: Institute for International Economics. 2006).

receptive.²

Building on the importance constructivists attach to the role of norms and shared beliefs, this bureaucratic approach focuses on the IMF staff's shared ideas or norm convergence. Bureaucratic organization theorists would assume that the IMF staff, deemed technocratic, would have a strong sway in internal IMF decision-making and would resist attempts to politicize the organization; ideational forces would outweigh material ones. This reinforces the IMF's claim that its day-to-day functions are carried out by the technically oriented staff, comprised mainly of internationally recruited macroeconomists that are separated from the potentially politicized, and relatively small, Executive Board. The work of public choice scholars, such as Roland Vaubel and Thomas Willet, would fit in nicely with this perspective: IMF staff have internal bureaucratic incentives to maximize lending, prestige, and entrench their internal power in the organizations.³ In one study, the author found the IMF staff resisting and usurping both the Managing Director and the Executive Board's attempts to limit the staff's scope of conditionality. Instead of reforming the Fund guidelines, the IMF staff further entrenched and expanded the staff's scope of conditionality.⁴

Realists look at the Executive Board where balance of power is reflected in quotas and shares and argue that ultimately the board can trump the IMF staff. While the Fund architects may have argued that the size of the board was to remain small to have an effective Executive Board; realists would cynically add that a small board could ensure that powerful states could then easily control the board. Realists suggest that IMF decision-making is actually a reflection of powerful states' interests, as the Executive Board reflects the skewed distribution of power in the international economic system. Realists would argue that powerful states use international organizations as instruments to achieve their foreign policy objectives by ensuring control over an organization's decision-making process and policy outcomes. The interests of Western financial donors and political interests can usurp the technical-minded Fund staff, leading to lenient conditionality, non-compliant conditionality, and optimistic forecasting.⁵ In this realist take, the IMF has no independent decision-making effect on its member states and reflects the will of the strongest members, most notably the United States and its private financial community.

Realists most often find the United States using the IMF as an instrument of its foreign policy. A number of studies, for example, have used UN voting records to show that the United States determines IMF loan approvals when it perceives its global alliances are under threat,

² See Michael Barnett and Martha Finnemore. *Rules for the World: International Organizations in Global Politics*, (Ithaca: Cornell University Press, 2004).

³ See Roland Vaubel and Thomas Willet, *The Political Economy of International Organizations: A Public Choice Approach*, (Boulder Westview Press, 1991).

⁴ Bessma Momani, "Limits of Streamlining Fund Conditionality: IMF's Organizational Culture." *Journal of International Relations & Development*. 8, 2, June 2005. For IMF arguments about the role of the staff and Executive Board see Joseph Gold, 'Political Considerations are Prohibited by Articles of Agreement When the Fund Considers Requests for Use of Resources.' *IMF Survey*. (Washington, DC: IMF, 23 May 1983) p. 148.

⁵ See Harrigan, Jane et al. "The IMF and the World Bank in Jordan: A case of over optimism and elusive growth" *Review of International Organizations* 1, 2006, pp.263-292; Stone, Randall. "The Political Economy of IMF Lending in Africa," in *American Political Science Review*. 98,4, 2004. Aldenhoff, Frank-Oliver. "Are Economic Forecasts of the IMF politically biased? A Public Choice Analysis" *Review of International Organizations*. 2, 2007, pp.239-260.

again through its dominant role at the Executive Board.⁶ In a specific study of IMF-Egyptian negotiations, the author has found explicit evidence of the United States usurping IMF staff loan conditionality to prop-up the pro-western Mubarak regime.⁷ Others have built on the realist assumptions to find that the IMF also designs and approves loans when creditor states and private commercial interests are highly exposed to debtor states. The United States directly intervenes in IMF decision-making when states are heavily indebted to American banks and when it is concerned over ‘bailing-out’ states experiencing financial crisis.⁸ These realist studies suggest that the United States delegates its foreign policy preferences through its Executive Director who in turn influences IMF decision-making, including the policy prescribed by the IMF staff.

Delegation theorists use principal-agent models and purport to build theoretical bridges between bureaucratic organizational theorists and realists. They argue that powerful principals delegate authority to international organizations that give staff some autonomy. Powerful countries may influence the IMF staff, but the IMF staff can also create their ‘zone of discretion’ and insulate their technocratic work from their intrusive principals. In other words, the IMF staff’s intellectual dominance in the institutions creates a powerful shield against powerful Board members’ attempts to politicize the organization.⁹ Ngaire Woods has similarly argued that although powerful members indeed have political preferences that create an ‘outer structural constraint’ on the IMF staff; IMF staff also have their own professional standards and templates which must be squared against political pressure.¹⁰ Delegation theorists suggest that technical and scientific organizations can better resist external political pressure by nesting their work in professional codes of conduct. International organizations and its staff need to be given this important ‘zone of discretion’ to create an aura of neutrality and ensure policy credibility. Principals prefer entrusting authority to a technical, bureaucratic, and hierarchical organization because policy outcomes are arguably more predictable. Principals will have some oversight mechanism, however, to ensure that IO staff do not overstep their mandate. In other words, delegation to the IMF staff remains on loan and can be usurped by the Executive Board through

⁶ See Stone Thacker, ‘The High Politics of IMF Lending’. *World Politics*. 52, 1, October, 1999, pp.38—75; Miles Kahler, ‘The United States and the International Monetary Declining Influence or Declining Interest?’ in *The United States and Multilateral Institutions: Patterns of Changing Instrumentality and Influence*. eds. Margaret P. Karns and Karen A. Mingot. (London: Routledge, 1990).

⁷ See Bessma Momani. *IMF-Egyptian Debt Negotiations*. Cairo: American University of Cairo Press, 2006 and Bessma Momani. “American Politicization of the International Monetary Fund” *Review of International Political Economy*. 11, 5, December, 2004.

⁸ Erica Gould “Money Talks: Supplementary Financiers and International Monetary IMF Conditionality” *International Organization* 57, 3, 2003: 551-586. Thomas Oatley and Jason Yackee. “American interests and IMF lending” *International Politics* 41, 3, 2004: 415–29. Richard Leaver and Leonard Seabrooke. “Can the IMF be reformed?” in Walden Bello et al. (Eds) *Global Finance*, London: Zed Press, p.25-35. Dreher, A. and Nathan Jensen. (2007) “Independent Actor or Agent? An Empirical Analysis of the impact of US interests on IMF Conditions,” *Journal of Law and Economics*, 50, 1.

⁹ Darren Hawkins, et al. ‘States, International Organizations, and Principal-Agent Theory’ in *Delegation and Agency in International Organizations* Hawkins et al. (Eds.) (Cambridge: Cambridge University Press, 2006).

¹⁰ Ngaire Woods. *The Globalizers*. (Ithaca: Cornell University Press, 2006).

drastic measures.¹¹ Issues presented before the IMF will differ and the resulting internal organizational dynamics will differ. Determining ‘who runs the IMF’ will depend on the issue, time and actors involved.¹²

In essence, bureaucratic organization theorists see the Executive Board as less powerful than the technical IMF staff; realists view the board as a reflection of the distribution of international power and assume real decision making is taking place outside of the IMF; and, delegation theorists view the staff as a key actor unless trumped by the board. Given knowledge about the organizational culture of the institution and the political stakes involved in having a seat at the Executive Board, a conundrum exists. If it is the IMF economist staff, functioning away from the Executive Board, which collates and verifies members’ economic information, assesses members’ economic weight, and ultimately calculates quota allocations using an established formula, should not the process of determining seat and quota allocations be a technical and reproducible process? At the same time, if the allocation of quotas and resulting Executive Board seat allocation determines the political and economic direction of the very powerful IMF, an agent of global economic liberalization, should not the external pressure to have a favourable political outcome for its powerful state members lead to intense politicization of the process? How did the external political pressures and the technocratic Fund culture interact?

This paper is part of a larger study on an analysis of the process of IMF Executive Board seat allocation, with special focus on four countries that have gained seats since the late 1970s: Saudi Arabia (1978), China (1980), Russia (1992), and Switzerland (1992). The addition of these particular seats expanded the IMF Executive Board from the 20 mandated by the IMF’s Articles of Agreement to its current 24 seat composition. Why did the IMF Executive Board expand beyond its mandated number to include these members? Through a rigorous comparative political-historical analysis, this project intends to put the IMF’s technical, rules-based argument for how seats are allocated to the test. The project uses content-analysis of the IMF’s own internal Archive documents (including Executive Board minutes, staff technical studies, and Board decisions); of declassified US government documents acquired using Freedom of Information Act requests from the State and Treasury Departments, and of transcripts of personal interviews with IMF staff, Executive Directors, US officials, other governments’ officials, and policy insiders. The case of Russia and Switzerland is used to help reveal some of the nuances at play.¹³ Specifically, how the IMF internally filtered the process of getting Russia and Switzerland seats at the board will be uncovered to add to the nuanced bureaucratic understanding of how this powerful organization behaves and operates under potential external political and financial pressure.

Fund Executive Board seats and quota allocations

¹¹ For an argument on bridge-building efforts, see Daniel Nielson. et al. (2006). “Bridging the Rationalist-Constructivist Divide: Re-Engineering the Culture of the World Bank.” *Journal of International Relations and Development*. 9, 2, 2006: 107-139. For an application of delegation theory to IMF surveillance, see Bessma Momani "IMF Surveillance and America's Turkish Delight" *Perspectives: The Central European Review of International Affairs*, 27 (Winter) 2007.

¹² See Friatianni, Michel and John Pattison, “Who is Running the IMF: Critical Shareholders or the Staff?” in *Multidisciplinary Economics: The Birth of a New Economics Faculty in the Netherlands* Gjsel and Schenk (Eds). (Pordecht: Springer, 2005).

¹³ The section on Russia is part of a forthcoming article in *International Journal*.

The manner in which IMF Executive Board seat allocations are decided is greatly dependent on the calculation of members' quotas. Technically, quotas serve three broad functions: to set the amount of funds that members can borrow, to establish a members' voting power on the Executive Board, and to determine how much a member must deposit into the Fund's liquidity. Technical and quantitative studies of quota re-allocation, primarily done by economists, have dominated the current literature on proposing ways to reform the IMF. Practically, however, assessment of members' quotas is vital to determining relative power, decision-making authority, say in the future of Fund activities and behaviour, and perhaps least noted: "national prestige".

The sentiment has often been that despite the technical and quantitative methodology used in determining members' quotas, traditionally allocating quotas involved making some international political judgments. This was the case from the very inception of the IMF at Bretton Woods, New Hampshire. US Treasury official Raymond Mikesell recalled how the Bretton Woods' quota formula was devised. He said: "I had anticipated this request [to explain the Bretton Woods quota formula] and gave a rambling twenty-minute seminar on the factors taken in calculating the quotas, but I did not reveal the formula. I tried to make the process appear as scientific as possible, but the delegates were intelligent enough to know that the process was more political than scientific."¹⁴ It is important to note that the early design of quota allocation was contrived to ensure that the major political contenders, rather than the economic ones, were represented at the Executive Board. The original 1945 quota distribution ensured that of 8,809 (all figures in US million dollars) total quotas, the United States had the highest quota allocation with post-World War II powers following suit. The quotas of the big four post-World War II powers were predetermined in the United States, before the actual Bretton Woods conference. The US' allocated quota was 2,750 or 31% of total quotas, followed by: UK 1,300 or 14%; Soviet Union 1,200 or 13%; China 550 or 6%; France 450 or 5%; and, India 400 or 4.5%.¹⁵ The original Bretton Woods quota allocations ensured that the US, UK, USSR, Republic of China, and France would have sole, appointed seats at the Executive Board. However, as history would have it, the Soviet Union pulled away from the IMF, leaving a sole, appointed seat for India to occupy until unseated by Japan in the 1970 Fifth General Quota Review.

The IMF mandates that the top five quota holders appoint five Executive Board seats. These appointed seats are 'on-loan' and reviewed every five years with general quota reviews. These quota reviews give members a chance to make their case for enhanced quotas and to potentially unseat other Executive Directors (EDs). Changing quotas, however, is extremely difficult to negotiate politically, regardless of the economic merits for change. Japan experienced this until it finally got its seat at the Board in 1970. There would be further changes to the top five sole, appointed seats. Germany unseated China in 1960 and Japan unseated India in 1970. Moreover, the number of seats at the Executive Board grew from the originally mandated 12 to 20. Fund Articles of Agreement were amended to allow 15 elected EDs in addition to the constant 5 appointed EDs. In the early 1980s, 2 additional sole constituency-free seats were added to the table headed by China and Saudi Arabia. By the early 1990s, Russia and

¹⁴ Mikesell, Raymond, 'The Bretton Woods Debates: A Memoir' Essays in International Finance, 192. (Princeton University, International Finance Section. 1994) p.35-36.

¹⁵ Other mentionables: Canada, 400; Australia, 200, Netherlands 275; and Poland 125. All figures found in: IMF. *Articles of Agreement*. (Washington, DC: IMF, 1992) p.60.

Switzerland had renegotiated their membership into the IMF and their share of Fund quota. Russia's managed to get a sole constituency-free seat at the Executive Board; while Switzerland headed an elected seat at the Board, taking in many of the new members that joined the Fund in the early 1990s. The Executive Board today is then comprised of 24 Executive Directors: 5 appointed, 16 elected constituencies, and 3 sole constituency-free seats. The Articles of Agreement, however, has not been amended to make the 24 Executive Board seats a permanent feature of the Fund, making the last four added seats (China, Saudi Arabia, Russia, and Switzerland) in excess of the 20 mandated by the current Articles of Agreement (See Table 1 for changes in board seats).

The IMF claims that the Executive Board does not take votes; instead, it uses 'consensual' decision-making that takes all of the Executive Board's views into account. That said, if votes were taken then most Fund decisions require an 85% 'special majority'. This would give only the United States, by design, a *de facto* veto power. The number of seats at the Executive Board increased to make room for new members, but the 'special majority' threshold that gave the United States a veto power was to be implicitly preserved. Executive Directors representing constituencies pooled their quotas and voting weight to have influence at the Board. Over the years, numerous shifting of members to and from constituencies that elected Executive Directors would ensue.¹⁶

Manoeuvring a members' strength at the Board, whether in seeking, or maintaining, one of the top five appointed seats or in adding weight to a constituency, involved securing a favourable quota allocation. Quota allocation has been, to say the very least, a complex, technical subject greatly overlooked in academic and policy literature. As many Executive Board and senior staff members stated in personal interviews, "few people really know how the technical formulas really work." The IMF officially claims that quota allocations are based on members' relative share or contribution to the world economy.¹⁷ The original Bretton Woods formula used to calculate relative economic strength took into consideration several variables: trade, foreign exchange reserves, domestic income, and export fluctuations. Throughout the history of the Fund, changes to quota allocations have been made to make room for incoming members, to reflect changes to members' relative economic position in the world economy, and to reflect new interpretations and changing weights of economic variables used in the original Bretton Woods formula of quota allocation.¹⁸ The Fund usually reevaluates its overall quota allocation every

¹⁶ This number increased from the 80% threshold as the US' share of quota decreased over time, to today's 17% of total quota which still gives the United States the only veto power. See Joseph Gold, *Voting Majorities in the Fund*. (Washington, DC: IMF. 1977). As well, for an excellent account of changes at the EB, see Ngaire Woods and Domenico Lombardi, "Uneven Patterns of Governance: How Developing Countries Are Represented in the IMF" *Review of International Political Economy*, August 2006. Woods and Lombardi have also noted that Russia has remained inactive in cross-coalition groups built at the Executive Board, p.507.

¹⁷ IMF, 'A Factsheet: IMF Quotas'. (IMF: Washington, DC, September 2005). <http://www.imf.org>. IMF, *Report to the IMF Executive Board of the Quota Formula Review Group*. (Washington, DC: IMF. 28 April 2000).

¹⁸ Leo Van Houtven, *Governance of the IMF: Decision Making, Institutional Oversight, Transparency, and Accountability*. Pamphlet Series No. 53. (IMF: Washington, DC2002) p.5; IMF. 'A Factsheet: IMF Quotas'. (IMF: Washington, DC, September 2005). <http://www.imf.org>.

five years, and such meetings and reviews generate significant debate and politicking among members. Because a member's power and strength is based on its relative share of the Fund's quota, attempts to increase the Fund's liquidity position through increasing the overall quotas can result in some members, particularly poor developing countries, from losing their share of the quotas and hence voting weight in the institution. As a former Executive Director once noted: "...the IMF falls from its normally very high analytical standards...when the case is made for higher quotas."¹⁹ All members want to ensure that their stature in the organization is strengthened, if not at minimum maintained, when general quota reviews are done.

The Ninth General Review of Fund Quotas was to be initiated in March 1988, but was delayed and postponed several times because of failed agreement on both the amount of quota increase needed and the reallocation of existing Fund quotas. By most accounts, the Ninth General Review was particularly heated as a number of incoming members were being admitted into the Fund and as G7 members were internally jockeying for power in the Executive Board; most notably, Japan, France and the United Kingdom. Many quota increase reviews garner politicization and subjectivity, similarly the case of the Ninth General Review was delayed repeatedly from internal disputes.²⁰

Finally, in May 1990, Fund members agreed that the terms of the Ninth General Review were to increase the total Fund quotas by 50%, from SDR 90.1 billion to SDR 135.2 billion, used to primarily raise members' quotas on an all around equiproportional basis (60%) and to readjust select members' quotas to better reflect their changed position in the world economy. The IMF Board of Governors agreed that increasing Fund liquidity and changing quota allocations were needed to respond to the economic crisis ensuing from the 1990-1991 Persian Gulf War, the admittance of new IMF members (Bulgaria, Namibia, Mongolia, and then Czechoslovakia), new IMF applicants (Switzerland and Albania), and most importantly the realization that Eastern Europe, a re-united Germany, and then the Soviet Union would need enhanced access to IMF resources in the coming years.

Politicking for Russia's seat at the Executive Board

It was very important for the Russians to get their quota share decided before the Ninth General Review was set to take effect, because they knew the Ninth review would diminish their quota share and they desperately wanted access to financing. The Russian's future Executive Director Konstantin Kagalovsky labored to get the review done under the Eighth review, a door which would be closed by the April spring meetings. The Russian quota would have decreased because the Eighth review used 1968-1980 data in quota calculations and the Ninth review used 1973-1985 data. The Russians knew that their economy took a downward dip in the later time period and getting under the Eighth review would have resulted in more favorable terms. The Ninth General Review would officially take into effect on November 11, 1992, the final day

¹⁹ Huw Evans, 'The Bretton Woods Institutions: A View From the Boards' (London: Centre for Economic Policy Research) Working Paper no. 32, July 1997, p.10; quoted from, J. Boughton's *Silent Revolution*, (Washington DC: IMF, 2001) fn.16, p.857.

²⁰ IMF, *Selected Decisions and Selected Documents of the International Monetary Fund*. 33rd Issue. (Washington, DC: IMF, 1998) pp. 638-661. As well, see James Boughton, *Silent Revolution: The International Monetary Fund, 1979-1989*. (Washington, DC, IMF, 2002) p.870-875; Yoshiko Kojo, 'Burden-sharing Under US Leadership: The Case of Quota Increases of the IMF Since the 1970s' in *Power, Economics and Security*. H. Bienen (Eds), (Westview Press. 1992) pp.286-308.

allowed for members to contribute money for their increased quota and the date in which the Articles of Agreement would be amended to reflect quota allocation changes.²¹

The G7 was in a stir over what to do to help Russia and how 'not to lose Russia' at its critical juncture of transition from the Soviet Union. The G7 finance ministers, G7 Sherpas, and the Executive Directors from the G7 built the case for special treatment of Russia in its membership negotiations. Beginning formally with the G7 Finance Ministers' meeting on 25 January in New York, support for Russia's membership into the Fund was endorsed by the G7. Throughout early February, G7 Sherpas continued to work on the terms of Russia and the other ex-Soviet Republics' applications to join the IMF. On the top of their agenda was the argument for Russia to have a seat at the Executive Board.²²

The G7 felt that Russia's IMF membership and place at the board would relieve some of the burden for bilateral aid and was the right thing to do for the former superpower. As John Major noted in his biography:

Russia needed- and received- a great deal of financial help, although talk of a 'Marshall Plan' was unrealistic and came to nothing. But her role as a debtor nation was uncomfortable for a superpower and I believed she needed to be brought into the Western process of decision-making. To disregard Russia when she was weak might not be forgotten when she was strong once again.²³

In Washington, Russia was mounting a case for substantial foreign aid and had the ears of US policymakers. America's Ambassador to Russia, Robert Strauss, lobbying for US support for Russia at the Fund and greater bilateral aid commitments was quoted in the *New York Times*: "This ain't bean bags we are playing. These are big time issues. This is life or death. This is the future of nations." In President Bush's points prepared for delivery to the US Congress on his proposed Freedom Support Act bill for Russian aid, released through the Freedom to Information Act, he noted that "I will do everything I can to avoid new budgetary expenditure by relying on international financial institutions and by marshaling existing resources. In this regards, I must emphasize again how important IMF [quota] replenishment is to my efforts to keep the budgetary impact as low as possible."²⁴ The US political climate was ripe for lobbying for Russian support, but on the heels of US financial commitments to the 1991 Persian Gulf War, President Bush remained concerned about his reelection and knew that the US public wanted greater domestic spending instead of continued spending on foreign policy-related issues. The

²¹ IMF, *Selected Decisions and Selected Documents* pp. 638-661. One of the final, yet key, members still holding out Fund payment was the United States because Congress remained reluctant to appropriate money to the IMF in a critical election year that saw domestic concerns over mounting deficits.

²² Confirmed in a personal interview with a former Executive Director; also see Rich Miller, 'G7 Close to Deal To Get Russia Into IMF' Reuters News. 13 February 1992.

²³ John Major, *John Major: The Autobiography*. (New York: HarperCollins Publishers. 1999), p.501.

²⁴ See Gaidar, US Ambassador Strauss, and even President Nixon publicly complained in the *New York Times* about US' weak aid package, because it failed to be a bold 'Marshall-plan' like reconstruction of the once great adversary. Also, US Senate. 102nd. 'Investing In Russian Democracy'. Levin statement to the US Senate. 18 March 1992, page S3802. Additionally, see Bush Presidential Record, National Security Council. Memorandum, William Sittmann to Phillip Brady, Points to be Made for Bipartisan Congressional Leadership Meeting on April 1, 1992. ID#21365, 31 March 1992, p.4.

Russian aid bill argued for Congressional approval of an increase in US' share of IMF contributions and quota that would enhance the Fund's liquidity which in turn allowed enhanced funding for Russia. The theme running through G7 capitals, particularly in Washington, was that aiding Russia would be an investment in ensuring long-term global stability. How the G7 states intended to implement this was through channeling financial support through the IMF- de facto burden sharing foreign aid to Russia- and giving Russia a greater political stake in the Fund.²⁵

Russia was also politicking to get its Executive Board seat through persuading the powerful G7 members. In cables released through the Freedom of Information Act, Russia's Deputy Foreign Minister and International Organizations Administration Chief, Sergey Lavrov, met with US Senators John Kerry and Bill Bradley in Moscow's US Embassy. Lavrov noted that Russia had "...made much progress and now were [sic] left to resolve such issues as the composition of the IMF Board of Directors and the number of seats to be allocated to participating states." Lavrov asked whether Russia should seek a "China Formula" and argue for a seat at the Executive Board on account of its political weight in the international community, to which Senator Bradley replied that "The People's Republic is still a communist state. Russia is not; Moscow can get a better deal and should aim for that outcome...[besides]...the China seat was a mistake; it should not have gotten one."²⁶ Russia was mounting international support for its sole constituency-free Executive Board seat.

At the Fund, the idea of Russia having a seat at the Executive Board soon became an "assumed reality" as G7 support for the idea intensified. Russia was then offered a seat very early in the membership negotiations process. It was, according to one Executive Director, "unthinkable" then that Russia would not get a seat. Moreover, according to many in the Executive Board, Russia getting a seat at the board made sense because China already had a sole seat as well. Russia was a nuclear power, it had geopolitical clout, and clearly could make a case that its presence at the Board ensured a representative and most important, a universal IMF. The global good of having Russia in the IMF allowed many in the board and in the Managing Director's office to overlook the Russians' relative economic weakness, suggesting that Russia should be given the benefit of the doubt and that perhaps it would rise again as an economic power to be reckoned with.

After it was informally agreed that Russia would hold an Executive Board seat, management and other Executive Directors briefly toyed with the idea of having the Russians take on the ex-Soviet republics as part of its constituency. There was no other natural constituency other than the ex-Soviet Republics that Russia could have had under its chairmanship. However, most of the former Republics did not want to be a part of the Russian constituency; they wanted to get rid of the yoke of 'mother Russia' and everyone at the Fund soon understood the political and historical sensitivities of having many of the former Soviet states join the Russian constituency. Moreover, Fund management realized that placing the ex-Soviet Republics under the smaller European state constituencies, like those of Belgium and the

²⁵ Confirmed in a personal interview with a former Executive Director; also see Miller, 'G7 Close to Deal'.

²⁶ Both quotes are from the deciphered cable from the US Mission in Moscow. See United States, Embassy. 'From American Embassy Moscow to Secretary of State Washington DC'. Moscow:US Embassy. Declassified Cable. 15 April, 1992, p. 15. Senators Kerry and Bradley were in Moscow on the heels of the President's announcement and before the act was tabled in the Senate, in June.

Netherlands, greatly enhanced the legitimacy and efficacy of these smaller European-led seats. Indeed, several Executive Directors interviewed noted that the Belgians and the Dutch were actively and aggressively trying to recruit the ex-Soviet republics to join their constituencies. Countries like Belarus and Kazakhstan, however, did suggest that they wanted to stay “in the bosom” of Mother Russia, but the Russians did not want to take on these two smaller states.

Russia felt there was greater national prestige in having a sole constituency-free seat at the Board. Similarly, Fund management wanted to cater to Russia as the political mood was inclined to give Russia the ‘red carpet treatment’. Indeed, the Russians perceived its sole seat without a constituency as a matter of national prestige and a matter of international right as a former superpower. Moreover, incoming Russian Executive Director, Konstantin Kagalovsky, made it clear to Fund management early in the membership negotiation process that it would not take on ex-Soviet republics in its constituency. Kagalovsky argued that it was tired of ‘subsidizing’ the ex-Soviet republics, including Belarus and Kazakhstan, and it wanted to turn a new leaf and end the Soviet Union in all respects, including its future place at the Board. Consequently, the idea of a Russian Executive Director taking on a constituency was dropped very early, as both the ex-Soviet states made clear their historical and political sensitivities of having Russia as its patron and as Russia wanted the sole seat as a matter of prestige.

Now that the political mood in the Fund Executive Board, supported by the powerful G7 capitals, was in favor of having the Russians get a sole seat at the Executive Board, Russia’s quota allocation share had to weigh in. In other words, the Fund needed to work backwards to give technical weight to the argument that Russia was a relative economic power. According to personal interviews with IMF Executive Directors and US officials, the sentiment at the time was that a seat at the board needed to be matched with the prestige of a substantial quota allocation. To do this, the IMF staff, primarily of the Treasury Department and to a lesser extent the European II Department, had to figure out the technical data needed to assess and propose Russia’s quota share. Here we find the IMF at odds with itself, torn between the political reality of powerful support for Russia’s Executive Board seat and the technical uncertainty of Russia’s relative economic weight that needed to be figured into its quota allocation. The Fund staff were kept in the dark about the political promises and nudges of a future Russian Executive Board seat, but once they understood the political implications, they were now put in the awkward position of working backwards to find the quota share that justified Russian prestige at the board.

Fund Staff Working Backwards

Staff of the Treasury Department and European II department went to Russia in January to assess the country’s overall economic situation. The area department staff reported on Russia’s price liberalization of consumer goods that resulted in nearly tripling of prices. According to the Managing Director, Yeltsin’s January 2nd price liberalization policies were a “very important and traumatic experience, as the liberalization involved 90 percent of consumer prices and 80 percent of producer prices, coupled with increases of three to five times in the remaining administered prices.” The staff cautioned the Russian authorities, however, that fiscal and monetary policies needed to be tightened further, in aiming for balanced budgets. In achieving these goals, the Fund prescribed privatization, raising taxes, further price liberalization, cutting social expenditures, and exchange rate unification to promote exports.²⁷

²⁷ Michel Camdessus, ‘Executive Board Minutes’. (International Monetary Fund. Washington, DC. 5 February 1992) 92/14. p. 5. Also, see Michel Camdessus, ‘Statement by the Managing Director on Russia During an Informal Meeting of the Executive Board’. (International Monetary Fund. Washington, DC. 27 February 1992) 92/36. p.1

The IMF staff also started calculating the proposed quota allocation of the new prospective members. In February, the Fund's Treasury Department staff proposed quota calculations for the former Soviet republics. The staff noted the difficulty in assessing quotas of 15 independent members using combined data sets of the former Soviet Union. The staff cautioned that the quota calculations were "somewhat arbitrary" and were "an approximation" of independent members' economic size. The problem, according to the Treasury Department staff, was that Soviet republics' data sets could not be considered as "economic" and were "...not comparable....with the statistics of independent countries or territories that functioned as separate economic entities." They warned further that "...data must be treated with caution in assessing the relative economic positions of the individual republics" and that "...the use of the data on gross domestic movements of goods as part of the tradeable sectors of the individual republics for the purpose of making quota calculations would inflate the quota calculations for these republics." Moreover, much of the data was missing, including critical year sets. Consequently, the Treasury staff noted that its data matrix was "less than one third complete."²⁸

Based on variables used in the Eighth General Review, the Treasury staff proposed that the former Soviet Union republics *as a whole* should get 3.66% of Fund quotas; based on variables used in the Ninth General Review, the staff proposed a 3.19% allocation. The staff determined further that the Soviet Union as a whole was smaller than Italy and larger than the Netherlands. In terms of desegregating the Soviet Union economy to determine the relative strength of individual republics, the staff estimated that the Russian economy represented 61 to 66% of the Soviet economy. These were based on various composite indicators, including the Bretton Woods Formula, used by the IMF. In all, the Fund staff argued that Russia's quota should be approximately 2.34% of overall Fund quotas, based on the quantitative criteria it had laid out and based on the approximations made with regard to incomplete data.²⁹ The staff report was circulated to the IMF's Executive Directors in late February, but the G7 Executive Directors, led by the United Kingdom which was temporarily representing the Russians at the Board, wanted to see the Russian quota share increased.

After several Board meetings on March 19 and 20th, the Executive Board asked the staff to reconsider its quota calculation by taking a closer look at four 'qualitative' factors: 1) depreciated exchange rates, 2) interrepublican trade, 3) an openness ratio, and 4) the depreciation component of GDP used in calculating the former Soviet Union's quota allocation. The Treasury staff took the four 'qualitative' factors into consideration and re-ran the numbers. First, when the staff recalculated the quota estimation based on the revised exchange rate information, Russia's proposed quota allocation dropped in a range from 1.97 to 2.24% of total Fund quota. Second, the staff reiterated its previous position regarding interrepublican data: "the staff has noted, conceptual issues apart, the extreme paucity and irregularity of data on interrepublican trade for most republics make it difficult to incorporate systematically the available figures in the data needed to make quota calculations." Third, the Treasury staff took the openness ratio as part of

²⁸ IMF, "Quota Calculations of the Republics of the Former Soviet Union- Methodological Issues." Memo to the Members of the Committee of the Whole on Methodology for Quota Calculation of the Republics of the Former Soviet Union, EB/CW/QMethodology/92/1, (IMF: Washington, DC, 28 February 1992) pp.2-4.

²⁹ IMF, 'Quota Calculations', p.22, p.27, and p.32.

its variables used in calculating Russia's quota and found no statistically significant change in the quota recommendations initially made. Finally, the Treasury staff argued that the depreciation component of GDP was already "extensively discussed between the Fund staff and USSR Goskomstat officials" seeing no possible change in quota calculations.³⁰ Treasury staff were not budging on the methodological problems associated with using interrepublican trade data and depreciation component of GDP in recalculating of Russian quota, despite Executive Director prompting. The Treasury staff did not produce the numbers that would satisfy key Executive Directors.

The Executive Directors from the G7 met outside of the IMF in Washington, DC, to informally discuss, off the record, the Russian quota share calculated by the staff. The EDs felt that the Russian quota share, calculated by the Treasury Department staff, was too low and was not commensurate with Russia's future seat at the Executive Board. The G7 EDs, following instructions of its capitals, reaffirmed that a 3% quota allocation would be the right number to give Russia the prestige needed at the board. This would put Russia's quota share immediately below Italy, the last of the G7 states. The task for the G7 EDs, on instruction of their G7 capitals, was to find the set of technical figures that would give Russia the 3% quota allocation share and to ensure that Poland and the Ukraine would get equivalent quotas. At least two G7 ED offices started working on this behind the scenes. Indeed, as the Treasury staff cautioned in their original calculations, trade data was the key to inflate the numbers that would give Russia its 3% quota allocation. As one Executive Director noted, it was sheer "luck" that once interrepublican trade data provided was considered into an 'openness ratio' formula, the required figures were reached. The Russian interrepublican trade data that was provided to the two G7 ED offices were, however, unverifiable and several interviewees noted that they were believed to have been fabricated by Russian authorities. Russia, however, would again be given the benefit of the doubt as G7 states wanted to see the universalization of Fund membership that was inclusive of a strengthened Russia.

The Executive Directors, particularly from the G7, nudged the staff to recalculate quotas using interrepublican trade data provided, which EDs argued counted as an equivalent to inter-country exports. The IMF staff were frustrated with this "double-dipping" type of data that both over-exaggerated trade and was based on illogical assumptions about the autonomy of these states to actually trade with each other. Interestingly, Camdessus commented a few weeks later that there was "...a whole array of problems relating to interrepublican trade. As we all know, the existing pattern of trade among the republics is highly artificial, a legacy of the central planning system."³¹ That said, the IMF Treasury staff returned to calculating various scenarios of Russian quota allocations using the interrepublican trade data. Treasury staff noted "...the use of the openness ratio has been developed in the context of providing some *possible guidance to Directors in their consideration of a judgmental allowance* when finalizing their

³⁰ IMF, "Statement by the Staff Representative in Response to Questions Raised by Executive Directors, Committee of the Whole on Membership for the Republics of the Former USSR." Memo to the Members of the Committee of the Whole on Membership for the Republics of the Former USSR, EB/CW/QMethodology/92/5, (IMF: Washington, DC, 26 March 1992) p.5.

³¹ Michel Camdessus, *Economic Transformation in the Fifteen Republics of the Former USSR: A Challenge or an Opportunity for the World?* Address to Georgetown University School of Foreign Service, 15 April 1992. (Washington, DC: IMF. 1992).

recommendations as regard [to] the quotas of the 15 republics.” The Treasury staff presented 16 possible quota allocations for Russia, based on a variety of variables and data provided; numbers ranged from 2.73% to 3.07% of total shares.³² Treasury’s next report noted: “...the quota calculations made for the republics of the former USSR have not made allowance for each republic’s interrepublican trade. In this connection, the Directors have agreed that such an allowance would be made in a qualitative and consistent manner for each of the republics.” This produced the number the G7 Executive Directors had been aiming for: a 3% quota allocation for Russia.³³

The Executive Board would have their final meeting on March 31st, 1992 to discuss the Russian quota, and the Russian representative took that opportunity to make a strong case for Russia’s 3% Fund quota share. At the Executive Board, Plenipotentiary Representative of the Russian Government Konstantin Kagalovskiy, argued that:

...while a proposed quota was of course based on the established methodology for calculating quotas, a quota proposal was also *a political matter*. In the current situation of Russia, the size of the quota recommended by the [Executive Board] Committee was a symbol of the Fund’s support of the Government’s economic policies.³⁴

Mr. Kagalovskiy “hoped that Directors would bear that fact [of the political situation] in mind in reaching their conclusion on a quota for Russia. Membership in the Fund would have to be ratified by the parliament, which was likely to act *only if the quota size was acceptable*. Accordingly, he hoped that Board members would recommend a quota share for Russia of at least 3 percent.” The Russian Parliament would not only have to ratify its membership application to the IMF, but also a series of legislative changes that the IMF staff insisted upon as precursors to full membership. These accession-based conditions included constitutional changes and increasing the President’s legislative powers. The Russian Representative needed to go home to the Parliament and make the case that the Fund had faith in Russian economic reforms, signified as he believed by a 3% quota allocation, in order to get Parliamentary approval of necessary legislative changes when the Parliament reconvened in five days.

The Japanese Executive Director responded that quota allocations were not only based on “exchange rate and GDP, but also [on] a kind of judgmental political or social factor.” Indeed, the Fund Managing Director confirmed the Japanese argument stating that: “...including an appropriate judgmental element was fully in keeping with the tradition of committees on membership.” The Russian Representative did not want to go home empty handed and sought immediate Executive Board commitments. As he noted in the March 31st Executive Board meeting, “...the Russian authorities were keen to make some sort of public announcement about the Committee’s recommendation, provisional or otherwise, as quickly as possible, and

³² IMF, “The Republics of the Former Soviet Union- The Calculation of Increase in Quota Under the Ninth General Review.” Memo to the Members of the Committee of the Whole Membership for the Republics of the Former Soviet Union, EB/CW/QMethodology/92/4, (Washington, DC: IMF, 25 March 1992), p.2. Emphasis added.

³³ IMF, “Russian Federation- Calculation of Quota.” Memo to the Members of the Committee of the Whole on Membership – Russian Federation, EB/CW/QMethodology/92/1, (Washington, DC: IMF, 30 March 1992), p.6.

³⁴ IMF, Minutes. Committee of the Whole on Membership– Russian Federation. Meeting 92/1-3/31/91. (Washington, DC: IMF, 30 March 1992), p.3. Emphasis added.

preferably immediately after the consultation of the current meeting.”³⁵ The Board conceded and that same day, March 31st 1992, the Fund’s External Relations Department made the unusual public news release of agreement on Russia’s 3% total quota share. Publicizing Russia’s quota share before the Board of Governors approved it, and before Russia was even admitted as a member was unorthodox indeed. But, the Russians believed that they were now in the position to better sell their economic reforms to Parliament.

The announcement of Russia’s 3% quota allocation played extremely well in Russian media sources. A few days after the Executive Board meeting and before the reopening of the Parliament, the *Komsomolskaya Pravda* reported that the IMF quota decision gave Yeltsin “...a powerful trump card” while “...the theme of replacing the government has been softened appreciably in the past few days.” Similarly, the *Izvestia* reported that the 3% quota allocation demonstrated the international financial community’s vote of confidence in Yeltsin’s policies. The *Nezavisimaya Gazeta* byline read “Russian Federation Government’s Sensational Success—Not Only Will Russia Be Admitted to the IMF, But Its Quota Will Rank It Right After the G7 Countries.” Finally, the outspoken and well-known writer of *Izvestia*, Otto Latsis, wrote “...not only will the IMF influence our development but also we- as the holder of a large quota- will influence the economic development of the entire world through the IMF.”³⁶ When the Parliament reconvened in April, the mood had been relatively calmed and although Yeltsin did not get the legislative authority he wanted, the Parliament agreed to not overthrow, but rather to ‘adjust’, the economic reform plan. This was a relative success, attributable in part to the relatively generous IMF quota allocation interpreted as an international vote of confidence in Russian economic reform plans and Russia’s new role in international decision-making. As former IMF Board members have noted, Russia’s position at the Executive Board remained a prestigious one, but also a quiet and low-profile position till today where Russia has preferred to go along with the consensus view at the Executive Board.

Throwing Swiss Financial Weight Around to Push for a Seat

The debate to join the IMF had started in 1946. Despite its non-member status, Switzerland held a close relationship with the IMF through decades of informal discussions with Fund staff on a variety of economic issues. Most importantly, Switzerland also had a direct relationship with the IMF through its formal contributions to IMF financial facilities- SDR 250 million to the second oil facility, SDR 650 million to the supplementary financing facility, and SDR 150 to the EAR borrowing arrangement- and most importantly as a contributor of SDR 1,020 million to the G10 fund in the IMF called the General Agreements to Borrow (GAB).³⁷

³⁵ IMF, Minutes, p. 3, p.4., and p. 9.

³⁶ Sickha, I, ‘We are Exchange the (New) Constitution for the Government’ *Komsomolskaya Pravda*. 4 April 1992. In *Current Digest of the Post-Soviet Press*, 29 April 1992. Vol. XLIV, No 13 ; Pavel Golub, ‘IMF Gives Russian Government Vote of Confidence,’ *Izvestia* 1 April 1992. In *Current Digest of the Post-Soviet Press*, 29 April 1992. Vol. XLIV, No 13.; Mikhail Leontyev, ‘Russian Federation Government’s Sensational Success’ *Nezavisimaya Gazet*. 2 April 1992. In *Current Digest of the Post-Soviet Press*, 29 April 1992. Vol. XLIV, No 13; Otto Latsis, ‘Forty Seven Years Late,’ *Izvestia* 28 April 1992. In *Current Digest of the Post-Soviet Press*, 27 May 1992. Vol. XLIV, No 17.

³⁷ IMF, “Switzerland- Calculation of Quota” Memo to Members of the Committee on Membership- Switzerland, EB/CM/Switzerland/90/1, (IMF: Washington, DC, 10 August 1990) p.1.

Since 1984, the Swiss joined the GAB and has participated in G10 meetings.³⁸ Motivations to contribute to the GAB, as the Swiss Department of Finance puts it, are because: “Switzerland, as an export-orientated country with a significant financial centre is particularly interested in a stable international finance system.”³⁹ Consequently, the Swiss “already had one foot in the IMF”, as a former IMF official put it, because of its contributions to the GAB and its participation in the G10.⁴⁰

By the 1980s, Switzerland wanted to open up to the outside world and had three important debates surrounding the question of joining the United Nations, European Union, and the IMF/World Bank. Joining the IMF and World Bank was perhaps the least important, but also the least contested. The UN and EU debates had mobilized popular and right wing movements to oppose them on grounds of losing Swiss sovereignty. On the other hand, NGOs were interested and relatively warm to the idea of Swiss membership in the World Bank, as a way of further propelling their case for stronger Swiss involvement in development issues.⁴¹ Similarly, sectors of the Swiss economy were also interested in World Bank membership, such as the pharmaceutical and machinery industries.⁴² Switzerland’s quota at the World Bank was dependent on negotiating a quota at the IMF; quota negotiations at the IMF were critical to the whole of Switzerland’s application to the two Bretton Woods institutions. As an international hub for private banks, Switzerland benefits from having a decision-making role in the IMF, but private banks had little direct influence in explaining the Swiss motivations to join the IMF.⁴³ Prior to the 1980s, the Swiss Ministry of Finance had argued that joining the IMF would cost too much, because it had a convertible currency. By the early 1980s, the Swiss Ministry of Finance started to warm to the idea of joining the IMF. In fact, the Swiss Finance Ministry had sent the IMF a letter in early 1982 that indicated their desires to join the Fund, but only once membership in the UN had been secured.⁴⁴ Meanwhile, the Swiss National Bank, or the central bank, was less interested in joining the Fund, but agreed to the idea in the late 1980s if the Swiss could secure a seat at the Bretton Woods’ executive boards.⁴⁵ Meanwhile, the Swiss Department of Foreign Affairs was increasingly supportive of the idea to have a seat at the board and to have membership at the Fund.

In late December 1989, the Swiss government announced the formation of a delegation

³⁸ The G10 members are France, Germany, Belgium, Italy, Japan, the Netherlands, Sweden, the United Kingdom, the United States and Canada, with Switzerland an additional role.

³⁹ Swiss Department of Finance, “Switzerland will continue to contribute to the IMF reinsurance fund” 20 November 2002. <http://www.efd.admin.ch/dokumentation/medieninformationen/archiv/02694/index.html?lang=en>

⁴⁰ Based on interview with former IMF official in Washington, DC on 17 October 2007.

⁴¹ Based on interview with a former Swiss National Bank employee in Zurich on 8 February 2008.

⁴² Based on interview with a former Swiss National Bank employee in Zurich on 8 February 2008.

⁴³ Based on interview with a former Swiss National Bank employee in Zurich on 8 February 2008.

⁴⁴ The Swiss Finance Department wrote to the Executive Board: “The Federal Council noted that the trade and monetary policy constraints that had hitherto prevented Switzerland from joining the International Monetary Fund and consequently from joining the other Bretton Woods institutions were no longer applicable. Moreover, the role that these institutions are playing in international economic cooperation and in aid to development have been continually increasing in recent years. In pursuance of the fundamental principles of our foreign policy and of our external economic policy--solidarity and participation with organizations whose mission is worldwide--it is right for Switzerland to join those international organizations whose activities are in its interest and within which it is in a position to exert its influence in proportion with its relative weight. It is in this spirit that the Federal Council decided in favor of Switzerland becoming a member of the Bretton Woods institutions. The date and modalities remain open.” See IMF, ‘Switzerland Fund Membership’ EBD/82/207, 23 August 1982.

⁴⁵ Based on interview with a senior Swiss National Bank official in Zurich on 8 February 2008.

lead by Finance Minister Otto Stich and the President of the Swiss National Bank Markus Lusser to commence exploratory talks on membership with the IMF. Finance Minister Stich was known to be a stubborn, yet determined nationalist that would be relentless in trying to persuade his government, Swiss public, and international stakeholders of the merits of Swiss membership in the Fund. Moreover, Finance Ministry official Daniel Kaeser worked feverishly behind the scenes to first convince and then support Minister Stich. This duo proved to be a formidable force, the stubborn politician and the technical brainpower behind the endeavour.⁴⁶

Throughout the spring of 1990, the Swiss delegation of both the Finance Ministry and Swiss National Bank started canvassing support throughout the western capitals for support of its IMF membership and a quota of over SDR 2 billion.⁴⁷ The Swiss would also use the G10 meetings and forums to raise the issue of having a seat at the IMF Executive Board. At home, the Swiss used the IMF's own Bretton woods formula to arrive at the SDR 2 billion figure because this was believed to be the figure that could secure them a seat at the Executive Board.⁴⁸ In theory, the Swiss were capable and willing to contribute more funds and inflate the quota figure, but this was the amount that they believed would be needed to secure its place at the board. Managing Director Michel Camdessus encouraged the Swiss delegation to continue making rounds in the west for support at the board.⁴⁹

While many of the western officials that the Swiss delegation had met would support the idea of Swiss membership in the IMF, many had raised their concerns that a high quota and a seat at the Executive Board would be problematic. The French, represented by then Finance Minister Pierre Bérégovoy and Governor of the Bank of France (and former managing director of the IMF) Jacques de Larosière, were worried that a Swiss seat would displace the smallest quota of French Africa and usurp them from the board. Italy's Treasurer and Bank Governor also doubted that the Swiss quota could be large enough to warrant a seat at the board; instead, the Italians, as well as the Dutch, encouraged the Swiss to attract Spain into its constituency. The British, Germans, Swedes, and Belgians seemed to also support the idea of a new constituency seat lead by Switzerland. In mid-July, however, the Swiss ambassador to Spain notified his government that the Spaniards believed a Swiss-led seat was unjustified and that Switzerland should not receive a quota larger than Spain's.⁵⁰

American Treasury Secretary Nicolas Brady was listening to his undersecretary David Mulford who was adamant about not having another seat at the board. Brady had suggested that the Swiss negotiate with its fellow Europeans to find an amicable solution and explicitly stated that a new seat was not acceptable.⁵¹ The US' opposition to board expansion had been partly shaped by the Deputy Managing Director, and former US Executive Director, Richard Erb. During many of Camdessus' travels around the world, Richard Erb was chairing the board and it became painfully clear to him that the board was difficult to manage.⁵² The United States did not want to see the board get too big and worked to prevent the expansion of the board, but the Brady did not have an opposition to the Swiss taking over an existing seat.⁵³ The Germans

⁴⁶ Based on interview with a former Swiss National Bank employee in Zurich on 8 February 2008.

⁴⁷ Kaeser, Daniel. 2003. *La longue Marche vers Bretton Woods : Chronique des relations de la Suisse avec le Fonds monétaire international et la Banque mondiale*. Georg Editeur.

⁴⁸ Based on interview with a former Swiss National Bank employee in Zurich on 8 February 2008.

⁴⁹ Kaeser, 2003.

⁵⁰ Kaeser, 2003.

⁵¹ Kaeser, 2003.

⁵² Based on interview with former IMF official in Washington, DC on 17 October 2007.

⁵³ Based on a personal interview with a former US official on 3 May 2006 in Washington, DC.

offered to help the Swiss mend the divide of continental opinion by speaking to the Americans.
⁵⁴

On June 6th 1990, Michel Camdessus held an informal meeting with IMF Executive Directors to discuss the Swiss application to join the IMF that was received on May 31st that year. A team of IMF staff went to Switzerland in the latter half of June and July for a preparatory study of the Swiss economy. In its reports, the IMF staff estimated that the Swiss share of Fund quotas should be 1.57% (or SDR 3.38 billion calculated quota and 1.45 billion actual quota) based on the Eighth Review.⁵⁵ The Swiss were not impressed with the staff calculations and took their concerns to the head of the IMF.

Swiss Economic Affairs Minister Jean-Pascal Delamuraz met with Camdessus, as well as President George Bush and World Bank President Barber Benjamin Conable, on 24 July 1990 in Washington, DC. Delamuraz reminded the two Bush and Conable that Switzerland accounted for the 5th largest amount of foreign direct investment in the world; Switzerland was vital international financial creditor; the Swiss franc was a leading currency used in foreign currency reserves; and, that Switzerland was an important international financial centre. Delamuraz repeated that Switzerland wanted SDR 2 billion quota and expected a new seat at the table. Camdessus assured Delamuraz that the IMF staff's study was a starting point of further discussions and that the staff had confined themselves to purely technical calculations. Camdessus noted that there would be room to negotiate a higher quota; after all, he noted, Switzerland was well liked and that the IMF did not forget Switzerland's past contributions to IMF liquidity.⁵⁶

As is customary practice, the IMF had set up a Committee of Membership to consider the Swiss quota and membership application. The committee was comprised of various Executive Directors and was chaired by Canada's Scott Clark. Otto Stich approached the French Finance Minister Bérégovoy to have France's Executive Director Jean-Pierre Landau represent the Swiss interests at the committee. Moreover, it helped that both France's Landau and Swiss' Stich were both socialists and had a meeting of the minds on many issues.⁵⁷ The Swiss also decided on the French after ruling out the British who were approached to represent Russian interests at the board.⁵⁸ At one point the Swiss considered having the Canadians represent their interests, seeing their relative neutral position on many issues; however, Finance Minister Michael Wilson as Chair of the Interim Committee was unable to do this. The French accepted the Swiss request and Landau was assigned an added role of being an advocate for the Swiss. Meanwhile, Stich made it clear that they hoped for a large quota and a seat at the board; without a seat at the board, the Swiss would revoke their membership application.⁵⁹ After all, the Swiss needed to also have a referendum on joining the IMF and it was felt that a seat at the board was important to selling the idea to the public.

The French Executive Director Landau advised the Swiss to stall the committee's decision and force the matter out of the IMF and into the finance ministries of state capitals by raising questions and doubts about the calculation of the staff.⁶⁰ The committee of Executive

⁵⁴ Kaeser, 2003.

⁵⁵ IMF, "Switzerland- Calculation of Quota" Memo to Members of the Committee on Membership- Switzerland, EB/CM/Switzerland/90/1, (IMF: Washington, DC, 10 August 1990) p.44.

⁵⁶ Kaeser, 2003.

⁵⁷ Based on interview with a senior Swiss National Bank official in Zurich on 8 February 2008.

⁵⁸ Kaeser, 2003.

⁵⁹ Kaeser, 2003.

⁶⁰ Kaeser, 2003.

Board directors assigned to study the Swiss application met on 11 September 1990 to discuss the staff findings. In an unusual move, Scott Clark invited Swiss Ambassador to the United States Edouard Brunner- one of Switzerland's most respected and long-time diplomat- to give a speech at the board. Brunner raised the issue of Swiss importance to the international banking and financial community as a fact that needs to be looked at more carefully. He also noted the history of Switzerland's role as a vital creditor to the Fund's GAB and other facilities as qualitative factors that the board should consider in its decisions.

After Brunner left the meeting, the United States', German, Saudi, and Libyan (representing a group of Arab states) directors and the Austrian alternate director seemed willing to accept the legitimacy of the Swiss argument, but did not endorse the idea of a 2.1 billion Swiss quota. On the other hand, the British, Dutch, Italian, Nordic, Indian, Spanish, and French Africans disagreed with the overall Swiss argument. Japan and Iran were more-or-less neutral. Spain was the least cooperative, again suggesting that the quota requested by Switzerland was unfairly higher than Spain's.⁶¹ Landau started to raise questions about market versus official prices of gold reserves as well as the issue of how other financial centres like Luxembourg, the United States, and Singapore would be affected by using bank transaction figures in a quota formula.⁶²

The confusion created in the 11 September meeting had the intended effect. Members of the committee had continued to have some doubts and asked for more information and clarification. Specifically, the board asked the staff for more information on "...developing a variable in the quota formulas to take account of the relative international financial importance of a member,"⁶³ Led by France's Landau, a number of the board directors (and the Swiss ambassador) were trying to politicize the calculations and nudge the staff to inflate the Swiss quota.⁶⁴ The subsequent meeting would be planned for 4 October, while the IMF Treasury staff went back to calculating the quotas based on the numerous new and contestable variables suggested by the Swiss.⁶⁵

The IMF staff at the Treasury department, however, found it repeatedly difficult to find a variable that could be used to properly and, more importantly, universally, reflect 'international financial importance' without serious misalignments. In its 28 September report, the Treasury Fund staff responded to the committee:

"...members of the Committee asked for further details of the adjustments made to the current account data for Switzerland to take into account Switzerland's international banking activities and its nonmonetary gold transactions. As indicated in [the previous staff report], the size of these activities was of an order that, for the reasons explained above and *in accordance with procedures followed for other countries when they apply for membership* and in the context of general reviews of quotas, it is consistent to exclude them in order to avoid an overstatement of the size of Switzerland's current account and in making quota calculations *to avoid any*

⁶¹ According to a senior Swiss official interviewed in Zurich on 8 February 2008 at the Swiss National Bank, the Spaniards were still bitter over Swiss objections to Spain's inclusion into the G-10. B

⁶² Kaeser, 2003.

⁶³ IMF, "Switzerland- Calculation of Quota" Memo to Members of the Committee on Membership- Switzerland, EB/CM/Switzerland/90/1 Supplement 1, (IMF: Washington, DC, 28 September 1990) p.1.

⁶⁴ It should be noted that two meetings of the membership committee occurred on 11 September 1990 and 4 October 1990. Despite making a formal request, the minutes of these meetings were not released by the IMF Archives and deemed still classified.

⁶⁵ Kaeser, 2003.

*distortions in the structure of calculated quotas.”*⁶⁶

The staff were willing to accept the Swiss position that interest earned on banking transactions and the value-added earned on gold smelting were indeed sources of revenue, but to suggest that the Swiss quota should be increased to account for money that flowed in and then out again was deemed “ridiculous” in the words of a senior staff member.⁶⁷ Moreover, the staff had already faced similar internal debates in assigning a quota for Singapore, which was like an entrepôt where goods and services were imported and then re-exported. The IMF staff remained committed to its earlier assessment and warned that changing the formula of quotas to suit Switzerland would have the potential to discriminate against other new members and cause distortions in the quota calculation outcomes. Throughout the report, the Treasury staff noted the complications of trying to find a fair and indicative variable that could be used. Among their calculations they noted, “problems of multicollinearity [would] arise” and that “the data available did not permit analysis of financial variables...and this to an important extent limited the scope of the study”.⁶⁸ Fund Treasury staff proposed a quota of 1.49 billion SDR.⁶⁹

Late November 1990, Swiss Finance Minister Otto Stich sent a letter to the Chair of the Intergovernmental Group of 24 on International Monetary Affairs (also Iran’s Central Bank Governor), Seyed Mohammad Hossein Adeli, in hopes of allaying developing countries’ concerns of Swiss membership:

It has been brought to my attention that, in the course of the debates by the Membership Committee, certain developing countries expressed the fear that Switzerland’s joining could endanger one of their seats on the Executive Boards of the Bretton Woods Institutions. In this respect, I want to assure you that my Government does not intend to claim a seat to the detriment of the developing countries. Besides, public opinion in Switzerland, especially our influential non-governmental development organizations, would oppose the weakening of positions already acquired by the developing countries.⁷⁰

Minister Stich also made clear in the same letter that Switzerland wanted a high profile role in the Fund and required a quota to fulfill this role. Minister Stich wrote: “As you no doubt know, Switzerland has asserted that the quota which is assigned to it should be commensurate with its importance as a financial center and permit it to provide corresponding support to the Bretton Woods Institutions. I am convinced that Switzerland, once admitted to [the] IMF and to The World Bank, will have a substantial creditor role.”⁷¹

The Committee on Membership for Switzerland reported to the Executive Board before

⁶⁶ IMF, “Switzerland- Calculation of Quota” Memo to Members of the Committee on Membership- Switzerland, EB/CM/Switzerland/90/1 Supplement 1, (IMF: Washington, DC, 28 September 1990) p.5. Emphasis added.

⁶⁷ Based on interview with former IMF official in Washington, DC on 17 October 2007.

⁶⁸ IMF, “Switzerland- Calculation of Quota” Memo to Members of the Committee on Membership- Switzerland, EB/CM/Switzerland/90/1 Supplement 1, (IMF: Washington, DC, 28 September 1990) p.12, 13.

⁶⁹ Another meeting of the committee on Swiss membership met on 4 October 1990 to discuss the IMF Treasury staff’s report. The meeting was heated as Spain dominated the meeting because it was unhappy with their quota.

⁷⁰ IMF, “Switzerland- Calculation of Quota” Report of the Committee on Membership- Switzerland, EBD/91/71 (IMF: Washington, DC, 13 March 1991) p.10.

⁷¹ IMF, “Switzerland- Calculation of Quota” Report of the Committee on Membership- Switzerland, EBD/91/71 (IMF: Washington, DC, 13 March 1991) p.10.

the board's upcoming March meeting. The committee recommended that Switzerland receive a quota in far excess of the staff's recommended SDR 1.45billion: SDR 1.7billion. The committee's proposed figure, however, was not unanimously endorsed. According to the committee's report, the objections to the proposed quota included members who felt that the quota was "too large in relation to the quotas of existing members on average, including of industrial countries" and by members who were concerned that "the proposed quota for Switzerland had potential implications for the size and structure of the Executive Board, in particular for the number of Executive Directors elected by developing countries, especially African countries."⁷² Nevertheless, the Swiss authorities indicated their acceptance of the recommended terms. In a Finance Ministry statement, the Swiss authorities noted that the recommend quota was not as high as Switzerland would have liked, but was at the minimum of what Switzerland could accept; pointedly, the statement read that "...in other words it cannot be said that Switzerland was treated unfairly."⁷³ As for a seat at the IMF board, the statement read that the possibilities of a seat were still "intact" (Ibid.)

The Executive Board met in March 1991 to discuss the Swiss quota and its membership application. Many of the fissures Switzerland had experienced a year earlier in its campaign to western capitals started to appear again during the meeting. Most vocal at the meeting was Cape Verde's Corentino V. Santos who represented the largest 24 African state constituency at the board. The African constituencies, represented by two executive board seats, were concerned that the Swiss seat would be made at their expense and wanted the board's recommendation of Swiss membership to the Board of Governors to reflect the Executive Board's concerns about the geographic imbalance a Swiss seat would have on the board. More importantly, Santos wanted assurances that the Swiss, noting the 1972 board understanding to safeguard two seats so as to not put undue burden on an African seat, would not displace the two African seats. The United States, represented by Thomas Dawson, argued that the issue of a Swiss seat was not explicitly discussed at the committee meeting on Switzerland and asked board directors to focus the meeting on the question of Switzerland's quota. The board meeting then turned discordant.⁷⁴ The meeting on Swiss membership soon turned to a larger debate about the looming question of whether Switzerland would expand the board or unseat an existing member at the board. It seemed support for a Swiss seat at the board was mounting, but what shape the board should take was still contested. The Africans were pitching for a new seat so as to preserve their existing two seats; a position supported by many of the developing country constituencies. The Americans, on the other hand, were trying to keep the idea of an additional seat off the discussion table to give them some room to manoeuvre outside of the Fund. The American position was supported by Italy's Renato Filosa, Meanwhile, Spain's representative, Angel Torres, also took the opportunity to highlight the under-valuation of Spain's quota and noted that "In view of the recommended initial quota for Switzerland, he wished to announce that Spain would formally request an ad hoc quota increase."⁷⁵ The board agreed to a compromise by restating some of the already agreed upon principles of bringing balance at the board and avoiding undue burdens on any director with excessive number of constituents. The board also agreed to append the Swiss

⁷² IMF, "Switzerland- Calculation of Quota" Report of the Committee on Membership- Switzerland, EBD/91/71 (IMF: Washington, DC, 13 March 1991) p.2..

⁷³ Christian-Edwards, David. 1991. 'Switzerland Pursues IMF Membership Despite Quota' Reuters News, 5 March. Accessed via *Factiva*, p.1.

⁷⁴ IMF, "Switzerland" Executive Board Meeting, EBM/91/40, (IMF: Washington, DC, 20 March 1991) p.44-48.

⁷⁵ IMF, "Switzerland" Executive Board Meeting, EBM/91/40, (IMF: Washington, DC, 20 March 1991) p.47.

Finance Minister's letter to the head of the G24 that noted Swiss sensitivity to developing country concerns. The board also recommended, and the Board of Governors later approved, an extended time for Switzerland to consider accepting its membership into the Fund; the added time (from the customary six month period) would allow Switzerland to have a domestic referendum on the issue.⁷⁶ The Board of Governors approved Swiss membership on 26 March 1991.

Significant debate in the Swiss national parliament ensued over Swiss membership into the IMF. This second house of parliament insisted on adding clauses to Swiss membership to join the IMF and World Bank that said that Switzerland would protect the interests of low-income countries. This would further help the Swiss secure the support of NGOs. The Swiss upper house of parliament approved legislation to join the IMF in September 1991. On May 17th, the following year the people also approved Swiss membership into the Fund (56 to 44%) after a nation-wide, non-compulsory referendum on the issue. A majority of the cantons had also approved membership. This was a battle that many in the Swiss National Bank were surprised to have won.⁷⁷ Now that membership and a quota had been agreed upon, the politicking involved in getting a seat at the board was heightened. According to the Swiss, on June 24th, the United States Treasury department sent the Swiss a letter congratulating them on their soon to be membership, but did not raise the prospects of a Swiss-led seat.⁷⁸ This was a letter that the Swiss would hold on to dearly, as they perceived it to be an implicit US nod in their favour and one that the Swiss would bring up again during future talks with the Americans. Next, the Swiss proceeded to court members into its constituency. In the time that the Swiss were trying to organized domestic support for its membership, they had lost "the best of the former Soviet Republic states" to the Belgian and Dutch constituency who both lured these members with considerable promises of funds and investment. The Dutch had given \$1 million to the Ukrainians to help them build an office for the International Office in the Ministry of Finance.⁷⁹

Swiss Finessing the International Political Community

Throughout the summer of 1992, the Swiss were mounting support of potential constituency members. At first, the press reported that the Swiss were trying to unseat Belgium who represented Czechoslovakia, Hungary, Luxembourg, Austria and Turkey.⁸⁰ The Americans supported the idea of having the Swiss lead the Benlux grouping, arguing that this made geographic sense.⁸¹ The Americans and others at the Executive Board felt that the Belgium-led grouping did not pull its weight at the board. The Swiss were not, however, working to unseat the Belgians because this would have been too large for them to hold. If the Swiss combined their requested quota with the existing members of the Belgium grouping, then this would have taken their quota above France and the UK. This was not politically feasible.⁸² The Swiss had tried to court the Turks out of the Belgian grouping to join them in a new seat. The Belgians, however, worked to keep many of its smaller members content in the grouping and it seemed

⁷⁶ IMF, "Switzerland" Executive Board Meeting, EBM/91/40, (IMF: Washington, DC, 20 March 1991) p.61.

⁷⁷ Based on interview with a former Swiss National Bank employee in Zurich on 8 February 2008.

⁷⁸ Kaeser, 2003.

⁷⁹ Based on an email exchange with a former Swiss Finance Department official on 4 February 2008.

⁸⁰ World Bank Watch American Banker-Bond Buyer. 1992. 'Switzerland trying to get a member on the boards at World Bank and IMF' Vol 2, No. 22. 8 June.

⁸¹ Based on interview with US official in Washington, DC on 17 October 2007.

⁸² Based on an email exchange with a former Swiss Finance Department official on 4 February 2008.

less likely that they would overthrow its director.⁸³ The Swiss were also alerted that the Belgians had pledged *inter alia* to help the Turks get membership into the European Union if they stayed in their grouping.⁸⁴

It was then rumoured that Switzerland had courted others to join a new Swiss-led coalition that included: Poland, Azerbaijan, Kyrgyzstan, Tajikistan, Uzbekistan. Poland was interested in the Swiss offer as it was disenchanted with the Italian-led office. The Italians had taken in the Poles in their grouping because the Polish-born Pope John Paul II had asked the Italians to do so.⁸⁵ The Poles were offered the lucrative alternate director seat in the prospective Swiss seat. The Poles suggested they could persuade Ukraine and Belarus to join the Swiss constituency (which did not materialize) and stated that they did not favour having the ex-Soviet Eurasian states in the same grouping.⁸⁶ Despite the Poles' desires, the Swiss Finance Ministry official Daniel Kaeser went to Uzbekistan, Kazakhstan and Kyrgyzstan, in April 1992, to determine their interest in joining a Swiss led grouping. The later three were not yet Fund members and did not have enough funds to pay their initial subscription fees to the World Bank.

It was rumoured that the Swiss would pay the four former Soviet republics their World Bank subscription fees in exchange for support in joining a Swiss led constituency.⁸⁷ The IMF had an internal mechanism to help countries pay for their initial subscription, but the World Bank did not. Nevertheless, the notion that the Swiss would pay for their constituents' membership subscription into the World Bank did not play out well in domestic Swiss media and prompted a Swiss official to deny this (although they eventually did). Swiss officials did confirm that Switzerland, in addition to other developed countries, was asked to lend or grant funds to the former republics and would consider lending between SFR 800,000 to 1.5million.⁸⁸ With the prospect of the Eurasian seats joining, the Swiss turned to the Turks again to court them into the idea of potential Swiss-led constituency. The Turks welcomed the idea of being included with the ex-Soviet republics in Central Asia which had ethnic ties to Turkey, but wanted to consult with the Americans about the viability of a 24th seat being created to accommodate the new grouping.⁸⁹

The United States had come to terms with the idea of an additional seat, one that would extend the board from 22 to 23; however, the Americans had made it clear that Russia would get the 23rd seat. The Swiss were now being told by the Americans that they welcomed the idea of the Swiss leading an existing seat, but it would not agree to creating a 24th seat for Switzerland. Switzerland would need to unseat an existing constituency head. There were indeed many potential groupings and attempted coup d'état of sorts in determining who would be unseated to accommodate the Swiss. Switzerland now needed to clarify its position to the developing countries, particularly after Otto Stich's November 1990 letter affirming that the Swiss did not intend to unseat a developing country. Swiss diplomat in Washington, Oscar Knapp, wrote another letter addressed to the World Bank's election committee chair that indicated Swiss

⁸³ Based on interview with US official in Washington, DC on 17 October 2007.

⁸⁴ Based on an email exchange with a former Swiss Finance Department official on 4 February 2008.

⁸⁵ Based on interview with IMF staff in Washington, DC on 17 October 2007.

⁸⁶ Kaeser, 2003.

⁸⁷ *Neue Zuercher Zeitung*. 1992. 'Switzerland seeks to smooth ruffled feathers as it takes up IMF seat' 8 September 1992. Accessed via *Factiva*.

⁸⁸ Rodger, Ian. 1992. 'Swiss negotiators confident IMF board seat within reach' *Financial Times*. London. 13 August. Accessed via *Factiva*, p.2.

⁸⁹ Kaeser, 2003.

interest in leading a constituency, but noting that the decision of how to allocate chairs on the board was not its prerogative and best left to the respective institutions' election committees.⁹⁰ The Swiss had made a clear about face in their pursuit of a seat.

With the US Treasury refusing the idea of a 24th seat again, as further expressed by the US Executive Director reminding board members that the US wished to reduce the board to its original 20 in a June 18th meeting of the committee on electing executive directors, the Swiss turned to target their lobbying efforts on changing US minds. On June 29th, the Switzerland's Kaeser met with US Executive Director Thomas Dawson and Treasury official Mark Sobel. The Swiss proceeded to try and convince the US Treasury department to overturn their objections to a 24th seat. Treasury was adamant, however, and frustrated with the unruly nature of the IMF Executive Board. The internal consensus of the department was to keep the number of chairs limited and have the Swiss negotiate the overtaking of weaker seats which did not have sufficient quota to warrant one.⁹¹

This led to initial rumours, spread by the Europeans of the possibility of unseating China to accommodate a new Swiss-led seat. China had the number 19th position in terms of shares of Fund quotas and felt slightly vulnerable. In a related trip of US Congressmen to Russia Senators Kerry and Bradley both noted in meeting with a Russian official that China should be unseated, as "...the China seat was a mistake; it should not have gotten one."⁹² By late August, officials in the US Treasury Department also leaked their opinion that China should be unseated to the press. A few days later Swiss Finance Ministry spokesperson stated that "We hope that China does not leave the executive board"; besides, he noted that there were other groupings more vulnerable to losing their seat than China.⁹³ China nevertheless felt vulnerable, prompting it to ask the Japanese who held a sole appointed seat at the board for supporting the continued China seat.⁹⁴ Later that summer, Economic Minister Jean-Pascal Delamuraz met with Chinese delegates and the latter agreed to pursue a seat for Switzerland.⁹⁵ Realistically, however, the possibility of unseating China was highly unlikely and the Americans did not entertain or propose the idea to the Swiss or others at the board.⁹⁶

The US Treasury did, however, support the idea of unseating the Iranian-led constituency. Iran had ranked 23rd in its share of Fund quotas. The Americans wanted to disband the group because they believed it was a geographically awkward grouping with French North Africans (Algeria, Morocco, and Tunisia), an Anglo African (Ghana), and Afghanistan.⁹⁷ The Americans thought it would be best if the French North Africans joined the existing French-African group then led by Zaire and the Ghanaians could join the Anglo-African group then led by Sudan. This would open a seat for the Swiss to lead the Poles, Turks, and the ex-Soviet

⁹⁰ Kaeser, 2003.

⁹¹ Based on interview with US official in Washington, DC on 17 October 2007.

⁹² Based on a cable from the US Mission in Moscow. See United States, Embassy. 'From American Embassy Moscow to Secretary of State Washington DC'. Moscow: US Embassy. Declassified Cable. 15 April, 1992, p. 15. Senators Kerry and Bradley were in Moscow.

⁹³ Christian-Edwards, David. 1992. 'Swiss Settle Squabble over IMF Representation' Reuters News, 31 August. Accessed via *Factiva*, p.1.

⁹⁴ Nikkei Weekly. 1992. 'China Seeks to Keep IMF Directorship' Economy Section. 12 September. P. 3. Accessed via *LexisNexis*.

⁹⁵ Kaeser, Daniel. 2003. *La longue Marche vers Bretton Woods : Chronique des relations de la Suisse avec le Fonds monétaire international et la Banque mondiale*. Georg Editeur.

⁹⁶ Based on interview with US official in Washington, DC on 17 October 2007.

⁹⁷ Based on interview with US official in Washington, DC on 17 October 2007.

Muslim republics.⁹⁸ Iran, however, got wind of the US plans and was similarly working behind the scenes to secure its position.

Tehran notified Iran's Executive Director that the United States was attempting to unseat the Iranian grouping. Iran's director went to a number of countries in search for adding members into the grouping. This included Indonesia, Nigeria, and Pakistan. The Iranians had a particular objective, however: to get above the 20th ranking and secure their position. Pakistan offered enough quotas to raise the Iranian-led grouping from the 23rd position to the 19th position. Now believed to be untouchable by the US pursuit of reducing the board to the originally mandated 20 seats, the Iranians breathed a sigh of relief.⁹⁹ The Saudis informed the Swiss that Pakistan would be moving to the Iranian group.¹⁰⁰ Unseating Iran had now become a difficult proposition. Knowing that the Iranian seat was secure and despite US Treasury opposition to the idea, the Swiss continued their campaign for adding members into a 24th seat. Throughout July, the Swiss delegates contact officials in Tajikistan, Romania, Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Uzbekistan, Poland, Turkey, and South Africa. Four countries confirmed their intent to join the Swiss. Poland confirmed their interest to join if given the alternate director position and Tajikistan, Kyrgyzstan, Uzbekistan, and Azerbaijan were also interested. The remaining countries consulted by the Swiss delegates had either found other groupings to join or, as in the case of Armenia, objected to the inclusion of Turkey and Azerbaijan into the group. Daniel Kaeser informs the IMF Managing Director that Switzerland had a number of countries willing to join it in a new seat.¹⁰¹

Throughout August, the Swiss Ambassador to the United States Edouard Brunner met with US treasury officials to try and change the US position. Throughout the Treasury department, they remained adamant about the Swiss finding an existing seat to overtake and the need to limit the size of the board. Once the US Treasury had realized that Iran could not be unseated, they asked the Swiss to wait another 2 years and try again. Finance Minister Otto Stich was completely against this idea and thought about another way to get to the Americans. This led to Switzerland's Minister Counsellor of Economy in the Washington embassy Oscar Knapp to have discussions with a close confidant in the National Security Council office of Brent Snowcroft. Upon the advice of Knapp's confidant, Brunner went to the State Department, the White House, and the National Security Council to make the case for a Swiss seat.¹⁰² Brunner tells the NSC that a Swiss seat would prevent the ex-Soviet Muslim republics from moving to Iran's constituency and strengthen Iranian geopolitical influence over these weaker regimes. Upon advice from Knapp's confidant in the NSC office, Brunner also adds that Poland is willing to join the Swiss grouping and that the Polish-American community represented a sizeable voting group in the United States, suggesting that this could be used to win the votes of this important community during an election year.¹⁰³ Finally, Brunner also reminded the NSC

⁹⁸ Based on interview with US official in Washington, DC on 17 October 2007.

⁹⁹ Based on interview with an Iranian official in Washington, DC on 15 October 2007.

¹⁰⁰ Kaeser, Daniel. 2003. *La longue Marche vers Bretton Woods : Chronique des relations de la Suisse avec le Fonds monétaire international et la Banque mondiale*. Georg Editeur.

¹⁰¹ Kaeser, Daniel. 2003. *La longue Marche vers Bretton Woods : Chronique des relations de la Suisse avec le Fonds monétaire international et la Banque mondiale*. Georg Editeur.

¹⁰² Based on interview with a former Swiss Finance Minister official in Ascona, Switzerland on 6 February 2008.

¹⁰³ Kaeser, Daniel. 2003. *La longue Marche vers Bretton Woods : Chronique des relations de la Suisse avec le Fonds monétaire international et la Banque mondiale*. Georg Editeur. Interestingly, US President George Bush made two speeches on September 6 and 7th to Polish-American community members. See Bush, George. 1992. *Public Papers*. Available at http://bushlibrary.tamu.edu/research/public_papers.php?submit=Search&search=poland.

and State department that Switzerland would buy US fighter planes and a seat at the IMF board was a sign of good dealings.¹⁰⁴

Brunner's visits to the White House, State department, and especially the NSC had their intended, positive effect. National Security advisor Brent Snowcroft contacted US Treasury Secretary Brady to discuss the prospects of a Swiss seat at the board. Snowcroft had a difficult time finding Brady, who was constantly travelling, but when Snowcroft finally spoke to Brady it was clear that the real Treasury objection to the Swiss seat was from David Mulford.¹⁰⁵ Snowcroft pulled rank and informed the Swiss that they will support their quest for a seat and instructs Treasury to drop its opposition.¹⁰⁶ Within weeks of Brunner's visits, the State department contacted David Mulford at the US Treasury and instructed Treasury to stop their objection of a new Swiss-led seat. The Treasury department was displeased, to say the least, with State and NSC interference in what was typically a Treasury department decision. Officials at Treasury had felt that Switzerland had pulled the wool over their eyes: the Swiss suggested that they would work in the framework of unseating an existing member, preferably Iran; meanwhile, the Swiss were campaigning for a seat in the political wings of the US government.¹⁰⁷ Mulford noted in his meeting at the G7 in Paris (3 and 4 September) that the Treasury would support a Swiss seat for two years until an in depth study of the size of the board could be conducted.¹⁰⁸ A few days later, a Treasury spokesperson noted that the United States would drop its demand that the Swiss take over an existing seat and thereby agreed to extend the board to 24. The spokesperson noted that "It was the only orderly thing to do".¹⁰⁹ With a bit more confidence, the Swiss noted that they "have a good chance [at a seat] but we're not there yet" and that they hoped to have the 24th seat on the board and not displace any of the existing seats.¹¹⁰

On 4 September, the Fund committee on electing directors drafted their report and recommendation to the Board of Governors set to meet in the coming weeks. In its report, the directors noted that:

"On the question of the number of Executive Directors to be elected, the committee considered that, in present circumstances and especially in view of the significant increase in the number of members with substantial voting power since the last election, the number of elective Executive Directors should be increased to nineteen."¹¹¹

In addition to the five appointed seats, the number of elected seats would be increased to 19 and thereby give the Swiss their 24th seat at the board. Despite many odds, including initial opposition of the United States, the Swiss laid claim to a prestigious seat at the IMF (and at the World Bank) Executive Board. The turbulent years in getting a Swiss seat was like "a poker game", and in the end, according to a Swiss Finance Ministry official, the Swiss had a 'complete

¹⁰⁴ Brunner wrote an article in a Swiss paper stating these claims. Three interviewees raised the issue and noted this article, but as of yet, I have been unable to find this article.

¹⁰⁵ Based on interview with a former Swiss Finance Minister official in Ascona, Switzerland on 6 February 2008.

¹⁰⁶ Kaeser, Daniel. 2003. *La longue Marche vers Bretton Woods : Chronique des relations de la Suisse avec le Fonds monétaire international et la Banque mondiale*. Georg Editeur.

¹⁰⁷ Based on interview with US official in Washington, DC on 17 October 2007.

¹⁰⁸ Kaeser, Daniel. 2003. *La longue Marche vers Bretton Woods : Chronique des relations de la Suisse avec le Fonds monétaire international et la Banque mondiale*. Georg Editeur.

¹⁰⁹ Wall Street Journal. 1992. 'IMF Agrees to Expand its Board, Allowing Switzerland to Join' 7 September 1992.

¹¹⁰ Reuters. 1992. 'Switzerland sees good chance of IMF executive seat' 9 September 1992. Accessed via Factiva.

¹¹¹ IMF. Report of the Committee on Rules for the 1992 Regular Election of Executive Directors. 4 September EBD/92/200.

hand’.

Lessons in Getting A Seat at the Board

What can the cases of Russia and Switzerland teach us about the IMF’s political history and organizational structure? There are a number of factors of this historical account worth highlighting. First, the Fund Management and Executive Board were caught up in the positive mood of the international political climate that was in favour of giving Russia the benefit of the doubt in terms of its relative economic weakness and missing data. Having a strong Russia join the Fund and the Executive Board would finally universalize the institution. There is no doubt to many inside the Fund that the symbolic power of this universality sentiment helped shape many of the Fund’s internal decisions on Russia. After all, the Fund would now be the inclusive international organization envisioned by its creators in embracing the former communist states and helping them in their formidable task of economic, social, and political transition. Moreover, Russia’s superpower legacy could not be ignored at the Board and its uncertain future made it more pressing to have the once great empire join the IMF’s top echelon of power. Again, by far the sentiment of Fund membership being universalized was the most powerful force behind the case of Russia getting a seat at the Executive Board.

Second, while Switzerland was a financially important country that had a deep historical relationship with the IMF, it could not use this legacy enough to its advantage. While the G7 were sympathetic to the Swiss case that it deserved a seat at the board, when it came down to furthering the Swiss case, most of the G7 acquiesced to the United States. Interestingly, the Swiss were able to make their legitimate case for having a seat at the board using geopolitical arguments: a Swiss case would ensure that Iran did not expand its influence at the board. The financial and economic rationale for a seat was less relevant to US interests than was the fact that Switzerland would be a useful player at the board and keep the Soviet’s ex-Muslim republics out of the Iranian ambit.

Third, it is important to note that Russia’s quota was pegged past the lowest of the G7, Italy, for political reasons. Soon after achieving a seat at the Executive Board, Russia would expand the organization to a G8. This does not seem to be a coincidence and would prove to be an investigation worthy of study. The fact that G7 states could not provide a Marshall plan-like solution to Russia’s dire economic position was an impetus behind sweetening Russia’s membership application with a seat at the Executive Board. What also stands out is that other G7 states, like Italy and Canada, did not get a sole constituency-free seat despite having greater quotas than Russia. There is a difference then, between quota allocations and representation at the Executive Board that is often unexplored. Moreover, having a constituency is not always a burden as the Russians had viewed it. Canada has preferred its constituency because it suits its self-described image as a state favouring multilateralism and Canada enjoys noting that it represents both developed and developing countries at the Executive Board.

Fourth, while Switzerland has been an active member of the G10 and contributed greatly to IMF liquidity in the past, this membership into an exclusive club did not necessarily guarantee that the Swiss get their seat at the board. However, the Swiss were able to effectively convince the United States that it could play an important chair role in a constituency. The Swiss reputation for fiscal management proved useful in demonstrating the skills of leadership needed at the Board.

Fifth, the case reminds us that indeed while the Board was accustomed to viewing the

world through political lenses, the IMF staff remained true to its character: a technical, quantitatively-guided body of professional economists. The IMF staff are technocrats committed to the economic principles of their craft and it took considerable Executive Board prompting to get the staff studies in line with their preferred outcome. Throughout the ranks of the staff, however, the politicization of Russia's seat at the board and political attempts at confusing Swiss quota calculations was never internalized; staff preferred, in their own way, to remain aloof and untainted by the Board's actions. Consequently, for IMF reform debates today, the case reminds us that the institution is torn between meeting the needs of its political masters, the Executive Board and the powerful G7 capitals, and the technically oriented staff.

Fourth, there were genuine objective difficulties in applying the Soviet statistical data for the purposes of the Fund's quota calculations including: missing time series of data, communist measures of GDP (which did not include services and were based on artificial prices), inflated Soviet exchange rates used in data sets, and, of course, inter-republican trade data. Similarly, the Swiss position as a financially important country did not fit neatly into the quota calculations without distorting numbers and quotas of other states. The staff wanted to work through these difficulties to achieve the appropriate, technical numbers. The staff insisted, particularly in the case of Switzerland, on being universal and fair across the membership.

The Executive Board- led by the G7, and most notably the United States who all wanted burden-sharing in the case of Russia, had appeared relieved when the Russians fabricated the data needed. Again, for the Board this politicization was for the greater good of the institution and, arguably in their eyes, for the long-term economic and political stability of the world. The Board accepted that when it comes to getting a seat at the board and determining quota allocation a political, in their words 'qualitative' or 'judgmental', factor was an acceptable part of IMF tradition. Indeed, as Mikesell's tale of the history of IMF quota allocation first noted, despite the presence of quantitative and technical formulas, the IMF worked backwards: ranking members' relative power position at the board and then using the technical figures to justify the received stature. Getting Russia a seat at the IMF table took considerable politicking and bending the variables used in technical formulas to produce a quota allocation commensurate with the prestige of its sole constituency-free seat at the Executive Board. The Swiss, on the other hand, could not get the numbers to justify its sole seat at the board, because it would have disrupted an existing balance created at the board and would have opened up a significant amount of debate on how to measure global economic importance.

Finally, the cases of Russia and Switzerland getting a seat at the board helps enrich existing debates among bureaucratic organization theorists, realists, and delegation theorists on determinants of IO decision-making. Both cases support bureaucratic organization theorists' findings that the IMF is a self-proclaimed technical and quantitatively-modeling institution. However, the staff's ideational power was no measure to the heavy politicization by the Executive Board and, more important perhaps, to the outer political pressure from G7 capitals and the United States. It was difficult, although still possible, for the Executive Board to politicize the institution's technical mandate when geostrategic interests were deemed to be at risk. To suggest, as many realists do, that the IMF staff are pawns of the Executive Board greatly underestimates their intellectual and technical autonomy in the institution. It is clear that there is a need for better appreciation of the impact of the IMF staff's technocratic character on IMF decision-making. To this end, delegation theory indeed provides a useful bridge between the constructivist-rationalist divide. Delegation theory accepts the possibility for autonomous staff behaviour, particularly when IO staff are delegated technical tasks, but correctly notes that

principals will rein in IO staff when powerful members' interests are at risk. The IMF's institutional design, a small Executive Board tilted in favour of US and G7 power, facilitates an oversight on the technically oriented staff.