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The politics of IMF–EU co-operation: institutional change from the Maastricht Treaty to the launch of the euro

André Broome

ABSTRACT How do regional changes affect the process of global governance? This article addresses this question by examining how the International Monetary Fund (IMF) responded to the challenges presented by Economic and Monetary Union (EMU) between the signing of the Maastricht Treaty in 1992 and the launch of the euro in 1999. Based on primary research from the IMF archives, the article illustrates how the IMF's efforts to reconfigure its relationship with European institutions evolved gradually through a logic of incremental change, despite initial opposition from member states. The article concludes that bureaucratic actors within international organizations will take advantage of informal avenues for promoting a new agenda when this fits with shared conceptions of an organization's mandate. The exercise of informal influence by advocates for change within an international organization can limit the options available to states in formal decision-making processes, even when these options cut across state preferences.

KEY WORDS Economic and Monetary Union; eurozone; institutional change; International Monetary Fund; policy surveillance.

INTRODUCTION

To understand why co-operation between the International Monetary Fund (IMF) and the European Union (EU) in the eurozone debt crisis has assumed the forms that it has, contemporary explanations need to be grounded in the evolution of IMF–EU co-operation that preceded the introduction of the euro in 1999. The objective of this article is to examine how changes in regional governance arrangements affect the process of global governance. The article does not examine the contemporary dynamics of IMF–EU bailout packages for distressed eurozone economies, nor does it seek to establish why the fiscal rules set up to govern Economic and Monetary Union (EMU) in Europe broke down after the euro was introduced (Heipertz and Verdun 2010; Hodson 2009, 2011). Instead, the article focuses on understanding how the institutional spillover effects that regionalism generates led to incremental change in the process of global governance.

The article proceeds as follows. The first section addresses the question of who controls change in international organizations (IOs) through reviewing existing literatures on the dynamics of global governance and the external relations of the European Union. The second section disaggregates the key policy challenges that EMU presented for the IMF, which impacted upon the architecture of economic governance across multiple levels. The third section examines the early stages of the IMF's response to European monetary integration following the signing of the Maastricht Treaty, while the fourth section explores the formalization of changes in IMF–EU co-operation prior to the launch of the euro in 1999. The article concludes by outlining the four principal ways in which the need to adapt to EMU shaped institutional changes within the IMF itself.

UNDERSTANDING CHANGE IN GLOBAL GOVERNANCE

Who controls processes of change in global governance? This question goes to the heart of long-running debates over the nature of state sovereignty, and how public authority is increasingly organized in 'variegated hierarchies' constructed across different policy domains to facilitate co-ordination among multiple actors (Lake 2009: 175). The existing literatures on international organizations and the external role of the EU provide two sets of competing explanations that address this question, both of which centre on how bureaucratic organizations at the regional and global levels work.

The first set of competing explanations is concerned with the location of power in global governance and the institutional processes through which power is exercised. From a principal–agent (P–A) perspective, international and regional organizations are conceived primarily as instruments of statecraft. They remain dominated by their most powerful member states, with limited autonomy for taking independent action if this would cut across those states' interests (Hawkins *et al.* 2006; Stone 2011: 2). When it comes to the politics of the 'purse strings', state control over funding for IOs provides a potent instrument for setting agendas and shaping policy priorities at the global level, as well as for mandating formal limits on the scope of an organization's responsibilities. This can involve domestic political institutions that decide on funding for international bodies – such as the United States (US) Congress – playing a critical role in advocating for or against specific policies in global governance (Lavelle 2011: 18-19). Seen from this perspective, powerful states remain capable of 'calling the shots' in IOs, despite the growing population of non-state actors and institutions that seek to shape global policy-making.

In contrast to P–A approaches, from a constructivist perspective the rules and routines that form the institutionalized culture of an IO provide bureaucratic actors with the means to exercise a high degree of operational autonomy from member states (Barnett and Finnemore 2004: 19–20). The staff of IOs can potentially draw on institutional resources such as technocratic expertise and cognitive authority to exercise influence over how global policy agendas emerge and are shaped over time (Broome and Seabrooke 2012; Chwieroth 2010: 31–2). Bureaucratic actors can shape institutional change through a process of 'layering', whereby new rules and practices are linked to existing ones and subsequently alter 'the ways in which the original rules structure behavior' (Mahoney and Thelen 2010: 16). Therefore, rather than an IO being kept on a tight leash by its most powerful member states, from this perspective the interplay between state control and IO autonomy is more complex, and internal 'norm advocates' can make strategic use of their own resources as well as changes in exogenous conditions to champion new priorities and policy solutions (Park and Vetterlein 2010: 21–2).

The second set of competing explanations relate to how governance dynamics work across multiple levels in a globalized era where markets for trade in goods, services and capital are internationally integrated. When scholars working within this literature examine the external impact of the EU, it is usually found to be influential in global governance processes only when it 'speaks with a single voice' in a specific policy domain, with the exemplar being EU negotiations in the World Trade Organization (Meunier 2005). On macroeconomic policy, the EU is generally assumed to remain more fragmented and less successful in achieving common preferences among its members or in gaining joint representation in global macroeconomic policy forums (Cohen 2009; McNamara 2008; McNamara and Meunier 2002).

Much of the work in this area has focused on the formal mechanisms through which the EU operates as a 'global actor', with less attention paid to the informal processes that might allow the EU to be influential in shaping global governance outcomes. This dichotomous understanding of the sources of influence captures only part of the dynamics of institutional change, because of the potential for codified rules and formal institutional designs to exert a constitutive effect on the norms and social environments that shape informal governance processes and *vice versa* (Abdelal 2007: 17–18). Research on European policy co-ordination during the global financial crisis, for example, suggests that EU member states are making greater use of informal mechanisms for maximizing the EU's influence in forums such as the Group of Twenty, as well as within the IMF (Hodson 2011: 96–7). This chimes with some of the more recent work that has been done from a P–A perspective, which has focused on understanding the informal mechanisms state actors use to shape policy agendas in international organizations (Stone 2011: 126–7). Gaining influence through informal mechanisms may therefore be a crucial stepping stone for the EU to achieve a more formal presence in specific global policy domains.

The key debate in these different literatures can be summed up by how scholars address three questions: (1) Are formal rules or informal processes more consequential in shaping changes in global governance? (2) Are global governance outcomes determined more by the distribution of material capabilities among state actors or by bureaucratic structures within IOs? (3) What factors enable or constrain the external influence of the EU in different policy domains? This article contributes to this debate by examining the institutional dynamics that shaped the evolution of IMF–EU co-operation in the run-up to the launch of the euro.

The approach in this article is situated within constructivist scholarship on European integration and global governance that is analytically eclectic rather than paradigmatic (Jabko 2006; McNamara 1998). The article argues against recent principal–agent perspectives, which pay insufficient attention to how international bureaucracies can use informal mechanisms to set global policy agendas that cut across state preferences. It adds to the existing literature by illustrating how incremental institutional change at the global level is enacted informally 'behind the scenes' in response to regional dynamics through a process of 'co-evolution' between institutions with overlapping bureaucratic responsibilities. Through a process of 'layering', actors 'work within the existing system by adding new rules on top of or alongside old ones', or they may 'convert' existing rules to address new functions or goals by interpreting them in different ways (Mahoney and Thelen 2010: 17). This logic of incremental change suggests that when they are faced with transformations in governance arrangements at a regional level that fit within their existing mandate, bureaucratic actors within IOs 'will act creatively as they rearrange old organizational notions and import or invent new ones to solve pressing policy problems' (Barnett and Finnemore 2004: 19).

THE IMF AND THE CHALLENGES OF EMU

International bureaucracies often evolve in response to exogenous changes in the policy domains that are covered by their institutional mandates, but reforms in the process of global governance do not always become immediately visible through rule changes or alterations in institutional design. It is easier for bureaucratic actors within IOs to foster changes slowly through shifts in informal processes and how existing rules are interpreted, rather than by proposing new rules that risk being vetoed by member states. Incremental changes that are quietly pursued through existing institutional structures and practices are harder for state actors opposed to reform to effectively block, constrain or monitor. This is because bureaucratic actors may be able to exercise a high level of discretion in the interpretation or enforcement of an IO's functions (Mahoney and Thelen 2010: 21), and often hold an informational advantage over most of their member states with respect to how tasks are performed (Stone 2011: 52).

The Maastricht Treaty was of great significance for the IMF's global role because it impinged on the nature and structure of the international monetary system, but the question of how the IMF should respond to the creation of a single European currency area was clouded by ambiguity. In the early period following the signing of the Maastricht Treaty, the potential for the IMF to expand its involvement with the EU was strongly resisted by a small group of national decision-makers and officials. Some national actors were opposed to further European integration in general (Baun 1995: 609–10), and sought to resist the prospect of the IMF treating the EU 'like a state' with respect to economic surveillance and policy dialogue in particular. Other actors, including EU officials, preferred to insulate the EU from IMF oversight and potential criticism (Thygesen 1997: 529). Crafting the IMF's response to preparations for the euro during the 1990s therefore posed significant legal, economic and political challenges for the organization.

The delegation of monetary sovereignty to the EU impacted upon the role of the IMF by stimulating a process of 'co-evolution'. This created a 'cross-border sequencing effect' (Posner 2010: 648–9) in which the IMF reacted to regional institutional changes in Europe, thereby prompting 'counter-reactions' at the EU level, which cumulatively changed the nature of IMF–EU institutional co-operation in the context of EMU. The key policy challenges that EMU presented for the IMF following the ratification of the Maastricht Treaty can be grouped into the following four categories:

- management of the existing IMF reserve positions of EMU members;
- the impact of EMU on international monetary stability;
- access by EMU members to the IMF's financial resources; and
- the representation of EMU members and EU institutions in the IMF.

The major issues associated with these four challenges are summarized in Table 1, each of which delegated governance responsibilities from states to the EU which impacted on the IMF's institutional mandate and rules. In short, the transfer of responsibilities from the national level to the regional level also threatened the

Table 1 The policy challenges of EMU for the IMF

Policy challenge	*National level*	*Regional level*	*Global level*
Control of states' IMF reserve assets	Member state reserve assets converted to euro balances	Right of the ECB to manage or 'pool' IMF reserve assets	IMF reserves cannot be transferred from states to the ECB
The IMF's macroeconomic surveillance role	Bilateral surveillance without monetary autonomy	Monetary integration without a framework for IMF surveillance	IMF mandate for ensuring orderly exchange markets
Emergency balance of payments financing	State access to IMF resources	Potential for the EU to block access to IMF resources	Ambiguity over who controls access to IMF resources
Representation in the IMF	Unco-ordinated representation of EU/EMU states	No formal representation of EU institutions	Over-representation of individual EMU states

ability of the IMF to discharge its responsibilities at the global level. For example, the advent of EMU generated ambiguity over the management of IMF reserves held by EMU members. While the IMF's rules stipulate that individual member states retain an automatic right to access their reserve holdings in the IMF, Article 30.5 of the Protocol on the Statute of the European System of Central Banks and of the European Central Bank (ECB) in the Maastricht Treaty on European Union included a clause enabling the ECB the right 'to hold and manage IMF reserve positions and SDRs and provide for the pooling of such assets' (Europa 2011). This provided the possibility for the ECB to seek to centralize control of EMU members' IMF reserves, thereby transferring legal authority over individual countries' reserve assets to the ECB and diminishing the individual rights of EMU states as members of the IMF.

Without enacting formal institutional changes in the relationship between the EU, EMU member states and the IMF, it was unclear how the IMF could conduct effective economic surveillance over the second most important currency area in the international monetary system. Of equal importance, European monetary integration introduced uncertainty over how the IMF should respond to future requests from individual EMU members to draw on the IMF's financial resources in the event of a financial crisis. The latter point was especially significant because the Maastricht Treaty provided for EMU members to lose their right to access EU balance of payments support, which would continue to exist only for EU states that remained outside of EMU. No Western economies borrowed from the IMF after the UK in 1976 and Italy in 1977 until the financial meltdown in Iceland in 2008 (Broome 2010). Instead, from the late 1970s onwards European states such as France (1983), Greece (1985, 1991), and Italy (1993) turned to the EU for balance of payments support through the EU's Medium-Term Financial Assistance Facility, as well as for resources to finance currency market interventions from the Short-Term Exchange Rate Support arrangements, both of which were initially established in 1971 (Polak 1997: 506).

In an effort to enhance the policy credibility of the single currency and EMU institutions with international financial markets (Hodson and Maher 2002: 392), as well as to enforce fiscal discipline upon EMU member states, Article 104 of the Maastricht Treaty included a 'no bailout clause', which expressly prohibited the ECB and national central banks from establishing a credit facility to address EMU governments' financing needs (Dyson and Featherstone 1999; Europa 2011). Designed to prevent a 'moral hazard' problem that could encourage individual countries to run up excessive fiscal deficits, the inclusion of the 'no bailout clause' nonetheless increased the risk of default on sovereign debt in the future if eurozone members faced asymmetric shocks and growth disparities (Mosley 2004: 193–4). Taken together, these factors increased the likelihood that EMU states would be forced to turn in future to the IMF for financial assistance, especially in the event of a systemic financial crisis, at the same time as throwing into doubt with whom the IMF should negotiate in the case of an EMU member that sought access to IMF resources (Maystadt

1997: 151). In addition to these concerns, the Maastricht Treaty raised questions over the existing representation of EMU members in the IMF, with the eurozone economies unable to either speak with a single voice within the IMF or to enjoy the benefits of veto power over major IMF decisions that accrue to the United States (Bini Smaghi 2009; McNamara and Meunier 2002: 857–8).

INFORMAL INFLUENCE AND IMF–EU CO-OPERATION

In the initial stages of preparing for EMU, the ramifications of the European single currency for the international monetary system and for the IMF's global roles were slow to be fully appreciated by the Executive Board. For example, Japan's IMF executive director Hiroo Fukui described the proposal by IMF Managing Director Michel Camdessus to schedule an informal Executive Board seminar on the wider implications of the Maastricht Treaty as 'a low priority' for the organization in 1992. Despite a lack of support from the Executive Board, the Managing Director quickly initiated an informal process of 'regional consultation' with the Economic and Financial Council of the European Communities (ECOFIN) in the aftermath of the signing of the Maastricht Treaty (IMF 1992: 3). When the Executive Board first debated the question of how the organization should respond to the Maastricht Treaty and the implications of EMU for IMF surveillance policies in May 1992, the US executive director Thomas Dawson promoted the idea of focusing future discussions regarding monetary integration in Europe on issues relating to the size of the Executive Board and the future representation of European economies, as well as the implications of EMU for IMF surveillance in the world economy (IMF 1992: 37). What immediately became apparent, therefore, was the potential for internal debates over EMU to impinge upon politically sensitive issues related to the organization's governance structure, its systemic role in the international monetary system and relations between major shareholders on the Executive Board.

The principal source of opposition among the IMF's major shareholders on the issue of enhanced IMF–EU co-operation came from the United Kingdom (UK), which has long been regarded as one of the most 'euro-sceptic' countries in the EU (Forster 2002). Following the signing of the Maastricht Treaty in February 1992, the UK position on Economic and Monetary Union hardened even further with the Exchange Rate Mechanism (ERM) crisis seven months later, when sterling was forced out of the ERM on 'black Wednesday'. In response to growing domestic political opposition to European integration, the UK sought to constrain moves by the IMF's senior managers and staff towards enhanced co-operation and formalized relations with EU institutions.

One of the main avenues for institutional learning and incremental change within an international organization like the IMF is bureaucratic reviews of operational practices and policies. Such reviews are often precursors to the process of expanding or revising an organization's existing rules, or changing how current rules are interpreted in organizational practices (Mahoney and Thelen 2010: 16–18). By creating space for debate on the efficiency, appropriateness and interpretation of existing rules, reviews expand the opportunity structures for internal actors to promote their own preferences for institutional adaptation. While states may seek to exercise back-door influence over these processes (Stone 2011: 55–7), international bureaucracies with substantial administrative capacities and technocratic expertise, which IMF staff possess, can maintain considerable autonomy in the design of institutional changes as well as controlling how alternative options for reform are presented, ranked in order of preference and justified in reference to an organization's existing mandate.

In the case of the Maastricht Treaty, the first such opportunity for institutional learning came with the biennial review of IMF surveillance policy at the beginning of 1993, less than four months after the ERM crisis, when IMF staff floated a proposal for enhanced policy dialogue with EU institutions regarding European economic integration and a greater focus on regional surveillance of the European economy. In response, executive directors collectively emphasized that the foundation of exchange rate surveillance of EU members should continue to be centred on individual countries through the bilateral Article IV process (IMF 1993: 16–7; on Article IV consultations, see Broome and Seabrooke [2007]). The UK executive director, David Peretz, went further in criticizing the 'misleading impression' that EU institutions had 'a role in overseeing macroeconomic policies in the member states', stating emphatically: 'That is not the case ... [and] we must be absolutely clear that that is not the case, ... responsibility for both fiscal and monetary policy remains with individual member states and their central banks' (IMF 1993: 28).

While this position was technically correct in January 1993, 10 months before the Maastricht Treaty came into force, these arguments misrepresented the close forms of policy co-ordination and co-operation that already operated between core EU members and ignored the systemic changes in economic governance that the Maastricht Treaty had mandated. Despite accepting the justification for informal contacts between IMF staff and the European Commission, the UK executive director sought to dissuade Board members from formalizing such discussions by keeping them ad hoc rather than on a regular annual cycle. In particular, Peretz argued that 'There should certainly be nothing that could be interpreted as an Article IV-type consultation with the Community.' This point prompted the Board discussion to descend into a debate about the linguistic definitions of the terms that were used to characterize the roles of EU institutions, such as 'oversight', 'surveillance' and 'co-ordination'. In the course of this debate, IMF staff drew on the organization's mandate to put the question to executive directors of why it was appropriate for the IMF to engage in policy dialogue with EU agencies with respect to external trade issues but not on monetary issues, when the latter comprised the core business of the organization (IMF 1993: 29–30).

In mounting the argument for the IMF to restrict its formal policy dialogue and surveillance processes to individual European economies, the UK executive director was not alone, although he put the case against establishing formal institutional co-operation in the strongest terms. The German executive director, Stefan Schoenberg, also argued that there should not be any formal Article IV-type consultations with regional institutions, and that it must be made clear that the results of any informal discussions 'should not have the same weight' as discussions with individual states (IMF 1993: 33). Other European executive directors who expressed support for this position included representatives from Spain, as well as France, whose executive director J.P. Landau contended that there was 'at present no case for the Fund to establish formal contact with EC institutions' (IMF 1993: 23). Those more supportive of formal co-operation between EU agencies and the IMF included executive directors from Italy, Belgium and the Netherlands, with the US executive director also offering cautious encouragement for strengthening institutional links with EU agencies.

Rhetorical action in Executive Board discussions by major European shareholders opposed to institutionalized relations with EU institutions drew heavily on a static understanding of the formal governance relations between the EU and its members, and a narrow definition of the IMF's own legal policies and operational norms, to push a formal decision on how the IMF should adapt to EMU down the Executive Board's agenda for several years. IMF staff subsequently sought to negotiate around Executive Board opposition by establishing informal processes of regional policy dialogue and macroeconomic surveillance. The clear fit between the creation of a single European currency and the IMF's surveillance mandate in the international monetary system provided space for the organization to informally promote greater institutional co-operation with EU institutions. During this period IMF staff and senior managers cultivated informal contacts and policy discussions with EU officials and national policy-makers alike, which gradually led to the development of an internal bureaucratic consensus on the future form of IMF–EU relations as the organization sought to craft formal institutional changes to accommodate EMU.

Bureaucratic actors within the IMF have a high level of administrative capacity and are often able to exercise a large degree of autonomy from member state shareholders. As a consequence, IMF staff can potentially engage in incremental change 'under the radar' of member states on the Executive Board. From 1994, the IMF continued with an informal process of institutional adaptation by commencing an annual process of 'proto-consultation' with the European Commission, which initially focused directly on progress towards the achievement of EMU convergence criteria but soon expanded to cover a wide range of policy issues. This was analogous to an Article IV consultation, with minor differences to defuse the political sensitivities among executive directors of appearing to treat the Commission 'like a state'. Specifically, these adaptations to the standard Article IV process included discussion of staff reports on EMU at the Executive Board level in informal seminars rather than formal meetings, and communication of the views of the European Commission to the IMF's Executive Board via the medium of a letter from its Director-General for Economic and Financial Affairs (from 1996 onwards), compared with the common practice of the executive director representing a particular country responding to the staff report during Board deliberations (Polak 1997: 499). Such repeated interactions with EU interlocutors during the early and mid-1990s steadily developed the groundwork and policy networks for more formal arrangements further down the track.

NEGOTIATING A NEW FRAMEWORK FOR IMF–EU CO-OPERATION

Of the four key policy challenges that the delegation of monetary responsibilities from states to the EU presented for the IMF (see Table 1), several of the major issues were resolved well before the 1999 start date for the euro approached, while decisions over others were repeatedly carried over to subsequent Executive Board meetings. The IMF determined that EMU decisions or policies that were 'incompatible' with the organization's rules could not exempt member states from their IMF obligations '... or deprive them of their rights' (IMF 1997: 2–3). The IMF clarified that the only circumstances in which regional integration would impact upon individual countries' IMF membership, rights and obligations would be in the case of 'a merger of two [or more] Fund members that gives rise to a successor state' (IMF 1997: 3). This effectively drew a line between monetary integration and political integration while reinforcing the legal doctrine of *res inter alios acta*, which states that an agreement between others cannot adversely affect the rights of an organization that is not party to it.

The IMF made a clear judgment on the provisions of the Maastricht Treaty which granted the ECB the authority to manage or pool individual countries' IMF reserve assets. The IMF's Legal Department stated unambiguously that 'the quotas of euro-area members in the Fund could not be amalgamated or pooled' because they directly relate to a bundle of individual membership rights including the size of a member's subscription, IMF voting rights, allocation of Special Drawing Rights and access to IMF lending resources (IMF 1997: 5, 1998a: 5–6, 22–3). The IMF also confirmed that EMU membership would not impact upon the right of member states to individually request use of the IMF's lending resources – nor would an EMU member or group of members be able to veto the use of IMF resources by another EMU member on the grounds of the Maastricht Treaty's 'no bail out' provisions (IMF 1998a: 24). Without an amendment to the organization's Articles of Agreement, the creation of a single constituency in the IMF to represent eurozone economies would only be possible if the IMF were to determine that the eurozone was a ‘country’ in accordance with Article II, Section 2, of its Articles of Agreement (IMF 1997: 7). The Legal Department interpreted the IMF’s rules as permitting co-ordination among EMU members to elect a smaller number of executive directors for multi-country European constituencies, but with the exception of larger states that must appoint an individual executive director and only within existing limits on the maximum and minimum percentage of votes a multi-country constituency can control.

As the date for the launch of the euro approached, the IMF’s informal discussions with the European Monetary Institute (the forerunner to the ECB), ECOFIN and the Commission gradually assumed a more formal pattern. For example, in May 1997 the Executive Board began to discuss staff reports on EU developments and preparations for EMU in formal session. While these policy dialogue reports with EU institutions had been conducted annually since 1992, this was the first time that Board deliberations on these reports were upgraded from informal seminars, which lack the authority to take formal decisions.

As the process of negotiating change within the IMF advanced towards a decision on the framework for future co-operation with EU institutions, staff communicated to the Executive Board a clear preference for future eurozone surveillance to operate within a formal Article IV consultation rather than maintaining the previous more ad hoc and informal approach. This was justified on the grounds that ‘The move to EMU will require intensifying discussions with EU institutions to fulfil the Fund’s surveillance mandate’ (IMF 1998b: 3). IMF staff argued for surveillance to cover not only monetary and exchange rate issues, trade, labour market and competition policies, but also the fiscal position of the eurozone economy as a whole as well as the stability of the eurozone financial system. The staff sought to attract Board support for IMF surveillance of eurozone fiscal policies on the basis that overall fiscal surveillance would be essential for assessing monetary and exchange rate policies (IMF 1998b: 4-5). In order to shape the parameters of deliberations on institutional options in Executive Board debates, IMF staff defined the content of key questions for executive directors to address in ways that favoured responses in line with their preferences and excluded alternatives (such as*:* ‘Do Directors prefer that these discussions [with EU institutions] be given a more formal status and be included as part of the Article IV consultation process with EMU members?’) (IMF 1998b: 10). In effect, IMF staff from the European Department and, to a lesser extent, the Legal Department sought to influence the design of the IMF’s institutional response to EMU through formulating options for institutional change that could be rhetorically defended as representing the ‘best fit’ with the IMF’s existing mandate for conducting global macroeconomic surveillance.

In Executive Board debates during late 1998, EU member states continued to voice opposition to the formalization of the IMF’s surveillance role in the eurozone, or else sought to restrict the coverage of IMF surveillance to monetary issues rather than fiscal and other policies. Most large EU states exhibited a preference for the IMF staff's 'second-best option' of maintaining the informal status quo surveillance approach, to be conducted on an annual basis, including the German, French, Italian and UK directors. The UK executive director, Stephen Pickford, maintained complete opposition to an Article IV-type consultation for the eurozone (IMF 1998c: 43–4). Others, such as the German executive director Wolf-Dieter Donecker and his French counterpart Jean-Claude Milleron, argued against including fiscal policy in the IMF's surveillance framework for the eurozone, contending that fiscal policies should only be discussed in bilateral policy dialogue with individual eurozone states (IMF 1998c: 15, 19). However, strong support for formalizing the IMF's eurozone surveillance and expanding the coverage to include the fiscal position of the eurozone as a whole – in line with staff preferences – came from the United States executive director Karin Lissakers and her alternate Barry Newman (IMF 1998c: 5). Despite continuing opposition from key European members, support for the preferences of IMF staff had gradually consolidated over successive meetings. In summing up the Board discussion in September 1998, for example, Deputy Managing Director Shigemitsu Sugisaki, who was Acting Chairman, concluded: 'most Directors noted that discussions at the EU level would also need to evaluate the fiscal position of the euro area as a whole in order to assess the stance of monetary and exchange rate policies and the coherence of macroeconomic policies' (IMF 1998c: 52). By rhetorically establishing surveillance over the eurozone's fiscal position as essential for achieving effective surveillance over monetary policies and exchange rate issues, IMF staff had boxed national actors opposed to a formal system of surveillance into a corner by appealing to the organization's core principles articulated in its Articles of Agreement.

The Executive Board eventually agreed to sign off on the preference of IMF staff for a more formalized Article IV surveillance process for the eurozone, to encompass twice-yearly staff discussions with EMU institutions (including the ECB, the European Commission, and the Economic and Financial Committee). IMF surveillance would be organized within the framework of Article IV consultations, leading to the production of an IMF staff report on the eurozone to be formally debated by the Board, including the 'staff appraisal' section used in all Article IV reports where IMF mission staff explicitly set out their collective evaluation of economic performance and policy challenges in an economy. Eurozone surveillance processes would culminate with a 'summing up of the conclusion' of the Executive Board discussion. The inclusion of the Chair's 'summing up' is especially significant because such summaries constitute an integral part of the formal decision-making process within the organization (IMF 1998d).

The final institutional hurdle to be cleared in late 1998 was the issue of representation for EMU institutions within the IMF. In December 1998, less than two weeks before the official launch of the euro, the Executive Board agreed to grant the European Central Bank which had been established in June 'observer status' in Board meetings on issues pertaining to the common monetary and exchange rate policies of the eurozone, bilateral surveillance of individual eurozone economies, the role of the euro in the international monetary system and other agenda items that the IMF and the ECB agree are in their joint interest (IMF 1998e: 2). This decision by the Executive Board ratified an agreement reached by EU heads of state or government at the Vienna European Council meeting on 11–12 December on the ECB's status at the IMF. The extension of 'observer status' to the ECB was based on the precedent of the IMF's collaboration agreements with other international organizations – such as the World Bank and the World Trade Organization – whose representatives are regularly invited to attend Executive Board meetings on issues where they share a 'mutual interest' with the IMF (IMF 1998b: 8, fn. 13).

Observer status entitled the ECB to have a representative attend IMF Executive Board meetings broadly related to eurozone issues, who is granted permission to address the Board on a case-by-case basis by the Chairman, and to receive the agenda for all Board meetings as well as associated IMF documents for meetings the ECB is specifically invited to attend. This institutional adaptation by the IMF represented an attempt to go as far as permitted by its own legal constraints and those of EU institutions to incorporate the ECB within IMF surveillance and policy dialogue for the eurozone. This allowed the ECB a degree of input into IMF decision-making processes without granting 'full' membership with voting rights, which would require an amendment to the Articles of Agreement (Horng 2005: 814–5).

For the IMF, the years preceding the third phase of EMU in 1999 were characterized by an incremental process of institutional change, whereby many of the organization's existing surveillance principles, constitutional rules and operational practices were gradually adapted or re-interpreted in response to the pressures for change generated by the rapid advancement of European integration. Other IMF rules, such as the 'one country, one membership' principle, were reaffirmed. The informal development of IMF–EU co-operation during the 1990s set in place a framework based on formal rules, institutional norms and reciprocal understandings that have continued to shape institutional relations between both organizations in the intervening period, while establishing a major precedent for how the IMF will respond to systemic changes in regional governance in the future.

CONCLUSION

When bureaucratic agendas are promoted informally within an international organization, the opportunities for states to control the outcomes of formal decision-making processes are constrained. The pressures generated by regional integration can function as building blocks for incremental change in global governance – even in an institutional environment containing influential national actors who exhibit strong preferences for preserving the status quo. As this article has demonstrated, powerful member states within international organizations are not always able to prevent institutional changes that cut across their national preferences. At the same time, the evolution of IMF–EU relations from the signing of the Maastricht Treaty in 1992 to the launch of the euro at the start of 1999 illustrates how the dynamics of regionalism can reinforce the primacy of states' existing international obligations and rights as members of international organizations over regional commitments.

The challenges of adapting to EMU in the wake of the Maastricht Treaty contributed to institutional change within the IMF in four main ways. First, the exigencies of fulfilling the IMF's global mandate for fostering international monetary stability provided staff with a strong justification for adapting its institutional processes to encompass supranational actors when previously its primary unit of analysis was individual national economies. Second, EMU prompted the IMF to reassert the principle of 'one country, one membership', shutting the door on proposals for a single European constituency in the organization that could challenge the veto power wielded by the United States. Third, in an effort to enhance the policy credibility of EMU institutions with market audiences and to enforce fiscal discipline on EMU members, the provisions of the Maastricht Treaty greatly increased the likelihood of eurozone economies borrowing from the IMF's resources in the future, by removing existing forms of regional balance of payments support for EMU governments. Finally, EMU drove IMF surveillance of 'Europe' as a region, with staff from the European Department acting as internal advocates for change within the organization against the preferences of several powerful member states.

This article has presented a simple argument: bureaucratic actors within IOs can use informal mechanisms to shape the articulation of new policy agendas, which constrains the opportunities for states to 'call the shots' over formal decisions. To revisit the three questions drawn from the existing literature that were introduced in the first section, this suggests the following findings for future research. First, informal processes provide a critical avenue through which the formal rules and procedures in global governance are negotiated and reformed. Second, bureaucratic actors within IOs do not respond passively to the preferences of states, even those with high material capabilities. IO staff may actively develop informal ways to navigate around leading states, especially when states oppose changes which bureaucratic actors believe are justified by their existing mandate. As previous research has shown, the external influence of EU institutions in macroeconomic policy domains remains weak compared with other policy areas such as trade relations. This article suggests that in policy domains where the EU and international organizations undergo a process of co-evolution, the EU's external institutional presence may gradually become a natural part of the global governance landscape.

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