The IMF as a de facto institution of the EU: A multiple supervisor approach

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This paper seeks to understand and explain the International Monetary Fund's (IMF) evolving relationship with the European Union (EU) before and after the global financial crisis of 2007–2008. Prior to this crisis, the two sides operated on parallel tracks with little scope for mutual adjustment even during the economic turmoil of the 1970s. After the global financial crisis, the IMF emerged as a de facto institution of the EU thanks to European leaders' delegation of supervisory powers to both the Fund and the European Commission. The reasons for, and consequences of, this dual delegation are explored here by means of a multiple supervisor variation on the classic principal-agent-supervisor approach.

Keywords: European Union, International Monetary Fund, global financial crisis, principal-agent-supervisor

I. INTRODUCTION

Much has been written about the influence of the European Union (EU) within the International Monetary Fund (IMF). A key question here is whether the euro area's fragmented system of external representation allows its members to speak with one voice within the Fund (McNamara and Meunier, 2002; Cohen, 2003; Bini Smaghi, 2004; Hodson, 2011). Much less has been written about IMF influence within the EU, an issue that is of added significance following the global financial crisis. In October 2008, the IMF and EU agreed to provide loans to Hungary before offering similar terms to two other EU member states: Latvia and Romania. In May 2010, Greece became the first euro area member to receive financial support from the EU and IMF. Three others, Ireland, Portugal and Cyprus, did likewise in the three years that followed. For all the fuss surrounding these programmes there has been little theoretically informed investigation of how and why the IMF found itself involved in European responses to the global financial crisis and to what end.

A notable exception in the scholarly literature is Rogers (2012), who in his wide-ranging examination of the IMF's interaction with European economies since the 1970s views the EU as laundering its preferences for fiscal austerity following the global financial crisis through the Fund. This argument, which is grounded in Open Marxist state theory, sees the EU as doing so to lend credibility to, and deflect blame for, shifting the burden of crisis adjustment from capital to labour (Rogers, 2012: 184). That the EU lacked credibility in this context, Rogers (2012: 184–5) explains with reference to constitutional constraints on direct bail outs and 'politically difficult problems in designing and enforcing the conditions attached to loans', although he does not elaborate on the latter. Lütz and Kranke (2014) see the EU as being similarly hawkish but consider the IMF to have been much more circumspect about fiscal austerity. The authors attribute this perceived difference in policy preferences to differential policy learning insofar as past policy mistakes have afforded the IMF an opportunity to soften its stance on austerity in a way that the EU's limited experience of such lending programmes has not. Why the EU would choose to involve the IMF in European affairs if the latter did not share the former's policy preferences is a

puzzle that Lütz and Kranke (2014) do not explicitly address, although their assessment that the EU lacked experience with 'supranational crisis lending on any comprehensive scale' implies that political necessity rather than political choice was at play.

This article offers an alternative take on the EU's decision to turn to the IMF following the global financial crisis. Its point of departure is that the crisis signalled the emergence of an agency relationship between EU heads of state or government and the IMF in which the former delegated supervisory powers to the latter as well as to the European Commission. Based on an examination of the operating procedures that emerged in relation to EU economic surveillance from 2008 onwards and which were later codified in secondary legislation and treaties, evidence is presented to show that this agency relationship goes beyond an act of parallel delegation in which the Commission and IMF work alongside each other but are accountable to different principals. It is also one in which the EU has contracted with the IMF to play a part in monitoring the conditions attached to European loans and EU economic surveillance more generally. It is in this sense that the IMF can be thought of as a de facto institution of the EU.
To explain EU member states' dual delegation to the IMF and the Commission, this article puts forward a multiple supervisor variation on the principal-agent-supervisor approach of Tallberg (2003). The multiple supervisor approach sees advantages to delegating supervisory powers to two monitors in cases where, inter alia, incomplete contracting is a problem and where collusion between supervisor and the first monitor is a concern. An analysis of EU legislative and treaty reforms following the crisis challenges the first of these explanations by showing the relative ease with which EU member states' re-contracted with the Commission to address financial constraints to crisis management but it chimes with the second by highlighting member states' persistent concerns over the EU executive as a crisis monitor. Viewed in these terms, the EU turned to the IMF following the financial crisis not for reasons of fiscal austerity or politico-legal necessity, as Rogers (2012) and Lütz and Kranke (2014) imply, but because EU member states' ultimately lacked confidence in the Commission as a credible crisis monitor.

The remainder of this article is divided into five sections. The first asks whether it makes any sense to think of the IMF as a de facto institution of the EU by exploring what EU institutions are and where they come from. The second section charts the IMF's limited dealings with the EU before the global financial crisis struck and considers the emergence of an embryonic agency relationship thereafter. The third section explores the reasons for EU delegation to the IMF from a multiple supervisor perspective. The fourth section considers the consequences of this delegation, including the IMF's unexpected emergence as a supranational entrepreneur. The final section summarizes the key findings of this paper and considers their implications for wider debates about the governance of the EU and IMF.

II. WHAT IS AN EU INSTITUTION ANYWAY?

Before showing how the IMF can be conceptualized as a de facto institution of the EU a discussion of what EU bodies are and where they come from is warranted. EU policy-making, it is important to recall, involves varying degrees of delegation over different stages of the policy cycle and across policy domains. The European

Commission, for instance, plays an agenda setting role in relation to single market legislation but in macroeconomic policy its traditional role has been to monitor member states' economic policies (Wallace, 2010: 71). While this means that the IMF could play a range of parts in EU policy-making, the Fund is evidently not an EU institution from the point of view of doctrinal law. Article 13 of the Treaty on European Union (TEU) lists the Union's institutions and no mention is made here of the Fund. Nor is the IMF named as an advisory body – only the Economic and Social Committee and Committee of the Regions are recognized as such under Article 300 of the Treaty on the Functioning of the European Union (TFEU) – or as a body, office or agency of the EU. This does not mean that the IMF could not be counted as a de facto institution, however, since the Treaty leaves open the question of what constitutes a body, office or agency and is imprecise on the scope and limits of the EU's institutional framework.

If doctrinal law thus struggles with this ambiguity over the definition of EU institutions, then it also suffers from too static a view of how such bodies are born. There are numerous instances of institutions assuming a de facto role outside the EU treaties only to be granted a de jure status later on. The most important example is the European Council, a summit of heads of state or government set up under an informal agreement in December 1974. Thereafter, the European Council emerged as arguably the locus of power in the Community (de Schoutheete, 2012: 53) even though it was not recognized in the treaties until the 1987 Single European Act and not named as an EU institution until the Lisbon Treaty became law in 2009. The Eurogroup emerged in a similarly organic manner. This informal body was established in December 1997 to encourage dialogue between the finance ministers of member states that joined the euro. In the decade that followed, the Eurogroup exercised increasing influence over the governance of Economic and Monetary Union (EMU) before seeing this role recognized in the Lisbon Treaty.[1]

The elephant in the room here, of course, is that the IMF is an international organization with its own legal personality rather than a de novo entity created by EU member states. There are instances, however, of the EU assigning a policy-making role to international organizations. A case in point concerns the EU's evolving relationship with the European Court of Human Rights. This Court was launched in 1959 by the members of the Council of Europe under the auspices of the European Convention for the Protection of Human Rights and Fundamental Freedoms. Although informal contact between the European Economic Community (EEC) and the Council of Europe was initiated in 1959, it was not until the 1970s that the former began to define its relationship with the latter. A key milestone in this respect is the 1974 Nold case in which the Court of Justice of the European Communities ruled that 'international treaties on the protection of human rights, on which Member States have collaborated or of which they are signatories, can supply guidelines which should be followed within the framework of Community law'.[2]

On the basis of this ruling, the European Commission, Council of Ministers and European Parliament signed a political declaration in 1977 that recognized rights guaranteed under the European Convention. This declaration, in turn, inspired a series of rulings in which the Court of Justice appealed to fundamental rights guaranteed under the European Convention (see Lawson, 1994). In so doing, Nic Shuibhne (2012) argues, the Court of Justice drew not only on the European Convention

directly but also on the jurisprudence of the European Court of Human Rights, thereby recognizing the 'authoritativeness and expertise' of the latter in relation to fundamental rights.[3] As a consequence of these and other changes, she suggests, the European Court of Human Rights acquired a 'supervisory role' of sorts in relation to EU policy-making. This supervisory role is set to develop further with the foreseen accession of the EU to the European Convention, a move that would bring the EU as a whole and not just its member states under the jurisdiction of the European Court of Human Rights.

III. AN EMERGING AGENCY RELATIONSHIP

It follows that a range of bodies, including international organizations, has acquired a de facto role in EU policy-making, but what role, if any, does the IMF play here? To answer this question, this section turns to agency theory. Pioneering applications of principal-agent analysis to the study of EU policy-making primarily focused on the relationship between member state principals and supranational agents (e.g Pollack, 1997; Elgie, 2002). More recent contributions explore a wider set of agency relationships encompassing the internal and external aspects of EU governance (see Billiet, Hodson and Maher, 2009; Jørgensen and Laatikainen, 2013). A seminal contribution to this second wave of scholarship is the principal-agent supervisor approach of Tallberg (2003), who reconceptualizes supranational institutions such as the European Commission not as agents tasked with implementation but as delegated monitors. The rationale for this supervisory role, he suggests, concerns the obvious conflict of interest that occurs when policy commitments agreed collectively by member state principals in fora such as the Council of Ministers are delegated to individual member states acting as multiple agents.

Students of the IMF have been slower to embrace agency theory but a steady stream of literature is emerging (see Vaubel, 2006). This literature has focused for the most part on the internal governance of the Fund. Key contributions here include Martin (2006), who discusses the agency relationship between IMF Executive Directors, acting as a multiple principal, and the IMF staff, acting as a collective agent, and Broz and Hawes (2006), who emphasize the chain of delegation from private individuals to IMF executive directors via the legislative and executive branches of government for what is generally regarded as the Fund's most important principal: the United States. Copelovitch (2010) extends this analysis to a subset of influential principals that also includes Japan, Germany, France and the United Kingdom. A second strand of literature looks at agency relationships between the IMF and its borrowers. A key contribution here is Drazen (2002), who focuses on the extent to which the IMF, as principal, can induce government agents to adopt economic measures that they would not otherwise have done. To date, there has been no systematic attempt to apply the principal-agent-supervisor approach to the Fund. Perhaps the most relevant study here is by Khan and Sharma (2001), who conceptualize the IMF as a delegated supervisor, but these authors say little about the nature of, and reasons for, such delegation.

However agency relationships are conceived – and the above discussion shows that a plethora of agency relationships potentially exists in a given policy domain – they are inextricably linked to the idea of consent. Consent between a principal and an agent, as Mitnick (1975: 3) argues, typically takes the form of 'an implicit or explicit agreement between two or more parties governing some aspect of their subsequent

behaviour'. For Sarooshi (2005), revocability is another key element of agency relationships, especially when it comes to the conferral of power on international organizations. He distinguishes here between delegation, where the power granted to an agent can be revoked, and transfer, where it cannot. The power of international organizations is ultimately revocable where principals have separate legal powers and personality but in practice, Sarooshi suggests, revocability will depend on the degree to which the principal can exercise control over the agent and on the exclusivity of the agent's powers. Where controls are effective and the principal and agents can act concurrently then the agency relationship involves delegation rather than the transfer of power.

Viewed in these terms, there is little evidence of an agency relationship prior to the global financial crisis, the two sides being linked by neither formal nor informal agreement to transfer or delegate policy-making powers from one to the other. All EU member states are also members of the IMF, but the EU is neither a member of the Fund nor eligible to become one.[4] This means that the EU has not consented to the IMF's Articles of Agreement, which give the Fund responsibility for exercising 'firm surveillance' over members' exchange rate policies, and require members to provide information for the purposes of this surveillance and, if requested to do so, consult on exchange rate policies. In practice, IMF surveillance has always paid close attention to EU developments, not only because of Europe's importance for the international monetary system but also because EU member states have treated exchange rate policies as a matter of common concern since the 1957 Treaty of Rome.[5] The Exchange Rate Mechanism (ERM) crisis of 1992 and the entry into force of the Maastricht Treaty in 1993, Broome (2013: 596) notes, encouraged the IMF to step up informal contacts with EU institutions. In December 1998, on the eve of the euro's launch, IMF Executive Directors agreed to hold twice-yearly meetings with officials from the European Commission and the European Central Bank (ECB) in the context of Article IV consultations with individual euro area members. The follow-up to these meetings feeds into a process known as the Article IV Consultation on Euro Area Policies, with the emphasis here on 'Euro Area Policies' rather than 'the Euro Area' indicative of the fact that the Fund does not have the contractual relationship with the EU as a whole that it enjoys with individual EU member states.

Being a member of the IMF is, of course, less significant for those countries not in need of financial assistance. This was especially true after the end of the Bretton Woods system in 1973, which transformed the IMF for most developed economies from an agent with autonomous policy-making powers into a monitor carrying out police patrol on behalf of the members. As police patrols go (see McCubbins and Schwartz, 1984), the IMF was given precious few powers of enforcement, with the 1977 revision of the Articles of Agreement codifying the extent to which Article IV consultations depend on peer pressure and persuasion rather than pecuniary sanctions (see Lombardi and Woods, 2008). To observe the interaction between the IMF and individual EU member states in starker relief, it is necessary to return to the 1970s, a period of economic crisis that saw two EEC member states seek financial support from the Fund.

Italy was the first EEC member state in this period to negotiate a Stand-By Arrangement with the Fund after home-grown efforts to contain a balance of payments crisis foundered (see Spaventa, 1983). Negotiations with the Fund produced

agreement in April 1974 on a $1.2 billion loan; an additional $530 billion was set aside in April 1977 but not ultimately needed. A second EEC member state, the United Kingdom, secured a $3.9 billion Stand-by Arrangement in November 1976 in response to burgeoning current account deficits. In neither case did financial support from the Fund affect relations between the IMF and the Community. In the case of Italy, the Community showed itself willing to provide financial support – EEC finance ministers agreed to provide $1.9 billion in medium-term financial assistance in December 1974 – but such support was kept separate from the IMF's contributions and, indeed, announced before the Fund and Italian authorities had concluded negotiations.[6] The conditions attached to European aid were, moreover, set by the EEC Council of Ministers and monitored by the EEC Monetary Committee without formal regard for IMF conditionality. In this sense, the balance of payments crisis of the 1970s gave rise to a form of parallel delegation in which the IMF and Monetary Committee monitored Italy's economic policy on behalf of different principals. There was some discussion at this time between the UK Prime Minister and the German Chancellor about an EEC loan but it was seen as a safety net to be used only if the UK's negotiations with the IMF broke down, which in the end they did not (see Crawford, 1983).

When the financial crisis of 2007–2008 struck, a similar form of parallel delegation emerged initially. The first EU member state to find itself in the firing line was Hungary, in part because of the significant exposure of its domestic borrowers to foreign-currency loans. The Hungarian government's response was to secure a €5 billion credit line from the ECB before opening up separate channels of communications with the IMF and EU. As these negotiations progressed, however, there emerged a significant shift in EU-IMF relations beginning with close contacts between their respective missions to Budapest and culminating in the coordinated presentation of a ‘joint-financing package’ of €25 billion for Hungary.[7] The term ‘joint financing’ is misleading here since the IMF and EU contributed financing to this package via separate channels and concluded separate programmes with the Hungarian government.[8] A degree of delegation from the EU to the IMF is discernable, however, in the modalities of EU medium-term finance assistance to Hungary. In November 2008, the EU Economic and Financial Affairs Council made it clear that the disbursement of future loan instalments to Hungary be contingent on ‘a satisfactory implementation of the new economic programme of the Hungarian Government backed by the IMF arrangement’.[9] The reference to the IMF here is significant. Such language was not included in the Commission's recommendation concerning this decision (Commission, 2008) and suggested a concern on the part of EU finance ministers that Hungary meet conditions set by the IMF as well as those determined by the EU executive. This move offered the first hint of an agency relationship that went beyond pre-existing forms of parallel delegation. The point here is that the IMF was involved not only in providing loans to Hungary; EU leaders also looked to the Fund when it came to monitoring the conditions attached to European loans.

In December 2008, the EU and IMF contributed €4.8 billion to Latvia as part of a total package worth €7.1 billion. In March 2009, the two sides offered €18 billion of a €20 billion programme of loans to Romania. The involvement of the IMF in EU surveillance of these countries was more explicit still. Whereas the Memorandum of Understanding signed by the Commission and Hungarian authorities made no

mention of the IMF, the Commission's agreement with Latvia called for compliance with both EU and IMF recommendations on a new Public Private Partnership Law and for experts from the EU and IMF to be involved in a new Budget and Financial Management Law (Commission, 2009a). An addendum to this memorandum went further by making the disbursement of further EU loans to Latvia conditional on close consultation with both the Commission and the IMF on, inter alia, cabinet decisions with a significant fiscal impact, the technical aspects of revenue raising or saving measures and matters related to bank recapitalization (Commission, 2009b). The IMF was also closely involved in review missions to Latvia by the Commission. Whereas the Commission's monitoring of Hungary's economic programme was initially carried out in 'close cooperation', EU and IMF officials (e.g. Commission, 2010a) conducted a joint mission to Riga in May 2009 on the basis of which the Commission decided to disburse a second tranche of loans to Latvia. By mid-2010 these joint missions had become the norm for programme monitoring for Hungary and Romania too.

Under the Treaty, the EU can provide balance of payments support only to those member states that have not adopted the euro. After Greece found itself on the brink of sovereign default in early 2010, the question of whether it could and should be offered a loan through other means was the subject of protracted negotiations among EU leaders. At a meeting in March 2010, euro area heads of state or government finally agreed to offer 'coordinated bilateral loans' but only as part of 'a package involving substantial International Monetary Fund financing and a majority of European financing' and only then if a request from the Greek government was forthcoming (Euro Area Heads of State or Government, 2010). This request duly came in April 2010, whereupon the troika travelled to Athens to negotiate jointly the terms of a €110 billion loan. Whereas the EU and IMF drew up separate programmes when dealing with Hungary, Latvia and Romania, here they agreed to monitor (different elements of) a single programme through quarterly reviews conducted jointly by the Commission, ECB and IMF.

The modalities for monitoring European loans to Greece, which were set out in an intergovernmental Loan Facility Agreement, were more parsimonious in the powers delegated to the Commission than they had been with balance of payments support. In the case of the latter, the Commission was authorized to evaluate the compliance of non-euro members with the conditions attached to financial support. The Greek Loan Facility Agreement, in contrast, invited the Commission to report on compliance, but left it to euro area members to agree on compliance on the basis of a unanimous vote. No mention was made here of the IMF but the contract's openness on this point allowed euro area members to draw on the surveillance of both the Commission and IMF staff when it came to the disbursement of European loans to Greece. A concrete example of this dual delegation can be seen in the Eurogroup's agreement to disburse another tranche of loans to Greece in July 2011 based not only on a compliance report from the EU executive but also in view of 'debt sustainability analysis by the Commission and the IMF' (Eurogroup, 2011).

The launch in May 2010 of a pair of ad-hoc mechanisms to support other euro area members embodies these two distinctive approaches to programme monitoring. The first of these instruments, the European Financial Stability Mechanism (EFSM), authorized the Commission to 'verify at regular intervals whether the economic policy of the beneficiary Member State accords with its adjustment programme' while

recognizing that this programme ‘will be in the context of a joint EU/International Monetary Fund (IMF) support’.[10] The second instrument, the European Financial Stability Facility (EFSF), mimicked the approach of the Greek Loan Facility by giving the final say on compliance to the member states and leaving the door ajar for EU leaders to draw on the surveillance of the Fund. This they duly did in relation to the EFSF programmes for Ireland and Portugal, which were launched in November 2010 and May 2011 respectively as part of a wider package of EU-IMF support, with officials from the Commission, ECB and IMF conducting joint review missions to these countries on the basis of which euro area finance ministers decided on loan disbursement. The IMF's role in monitoring the conditions attached to European loans in this context can be seen, for example, in the implementing decision on EU financial assistance to Ireland adopted in December 2010. Reference is made in this legal act not only to the need for coherence between EU and IMF support (paragraph 6) but also to the fact that the Commission ‘together with the IMF… shall periodically review the effectiveness and economic and social impact of the agreed measures’ (paragraph 9).[11]

In December 2010, EU leaders agreed to wind down the EFSM and replace the temporary EFSF with a new permanent European Stability Mechanism (ESM). The ESM Treaty, which entered into force in September 2012, offered the most explicit statement to date of the IMF's de facto role in EU monitoring. As in the case of the EFSF, and the Greek Loan Facility before it, the ESM Treaty invites the Commission to prepare a compliance report but leaves it to representatives of member states to decide on compliance. The ESM Treaty goes further here, however, by stating that the ‘Commission – in liaison with the ECB and, wherever possible, together with the IMF – shall be entrusted with monitoring compliance with the conditionality attached to the financial assistance facility’.[12] Such assistance, it is important to note, takes the form of European loans raised by the ESM and backed by euro area members. As such, the ESM Treaty looks to the IMF in this context not as a co-contributor to financial support programmes but as a delegated monitor that will work alongside the Commission and the ECB to monitor the conditions attached to European financial support. The emphasis on involving the IMF ‘wherever possible’ is important as it indicates that these functions have, in the language of Sarooshi (2005), been ‘delegated’ from the euro area to the Fund rather than ‘transferred’. The non-exclusivity of this arrangement is reflected in the fact that the IMF does not substitute for the Commission but is rather authorized to act alongside it. The revocability of the contract, meanwhile, is reflected in the fact that member states are not obliged to seek loans from the Fund or to involve it in monitoring.

The IMF's role in monitoring the conditions attached to European loans confirms that these arrangements went beyond the parallel delegation witnessed in relation to Italy in the 1970s. So too does the involvement of the IMF in those cases where financial contributions from the Fund were not sought. A case in point is Spain's Financial Sector Adjustment Programme, a €100 billion package of loans extended to this country by EU finance ministers in June 2012. Although IMF financing was not offered alongside this ESM package, the Fund was involved in programme monitoring. This role included the IMF's participation alongside the Commission and ECB in the so-called Strategic Coordination Committee, a body which played a key role in overseeing stress tests on Spanish banks. Further evidence of the IMF's policy-making powers in relation to EU economic surveillance can be found in the so-called

two-pack reforms adopted in May 2013. Under one of the two regulations contained within, a euro area member facing financial instability can be subject to review missions by the Commission and the IMF.[13] These missions can take place whether or not the country in question has requested external financial assistance from the EU or a third party, thus confirming the extent to which the IMF has emerged as a de facto institution of the EU.

III. EXPLAINING EU DELEGATION TO THE IMF

This section turns to the question of why EU leaders would look to both the IMF and the Commission to play a supervisory role. Although it offers the most illuminating treatment of supranational supervision to date, the principal-agent-supervisor model of Tallberg (2003) is of limited help here. In essence, EU member states in Tallberg's approach demand third party monitoring that the Commission is only too happy to supply. There is no shirking (in the sense of want of effort) here, only instances in which the Commission pursues more stringent enforcement strategies than member states would have liked. Tallberg (2003) gives no reason here why EU leaders would turn to a third party, presumably because member states are generally successful in their efforts to keep the Commission in check or resigned to the consequences of incomplete contracting where not.

This section goes beyond Tallberg (2003) by putting forward a multiple supervisor variation on the principal-agent-supervisor model. In the multiple supervisor approach, the principal contracts with an agent but it is uncertain, for familiar reasons, whether the latter will act in the interests of the former. The principal responds to this problem by contracting with two delegated monitors who conduct parallel police patrols of the agent's action with a view to identifying breaches of the contract between the principal and agent. It is assumed here that monitoring is costly (see Strausz, 1997) because a principal must invest time and resources in surveillance or incur the costs of delegating monitoring to a third party; such costs can be direct, where the delegated monitor requires remuneration, or indirect, where the principal must monitor the monitor or suffer a loss of influence where the monitor fails to act in the interests of the principal. Applied to a multiple supervisor setting, this raises the question of why a principal would incur an additional round of monitoring costs by enlisting the services of a second supervisor. The first hypothesis put forward here assumes that the transaction costs associated with an additional supervisor are less than the costs of overcoming contractual difficulties with the first monitor. This line of reasoning chimes with Hawkins et al. (2006: 25), who suggest that the creation of a new agent may be costly but still cost effective.

The second hypothesis looks to the involvement of an additional monitor as a means of deterring collusion with agents. The basis for collusion between a supervisor and agent is what Tirole (1992) refers to as ‘side-transfers’, a term that includes not only pecuniary arrangements but also the social interaction that can develop between supervisor and agent to the detriment of credible supervision. Examples of such detrimental behaviour include the tendency of some supervisors to overlook some instances of non-compliance so as to keep the peace with agents and/or to see compliance as reflecting more favourably than non-compliance on the quality of supervision. The scope for such social interaction may be greater in the presence of long-run relationships, Tirole speculates, insofar as trust between a supervisor and

agent can take hold over time and because collusive behaviour tends to be self-perpetuating once it takes hold. He also sees the emergence of bureaucracies as a catalyst for collusion because bureaucratic actors, as he sees them, tend to rely on rule-based behaviour that limits the scope for discretion in assessing compliance. Whether a second supervisor can help to overcome such collusion is a matter of debate in the literature. Scheepens (1995) argues that it can do under certain circumstances. He employs the example of a bank's loan officer who is well placed to judge the credit risk of potential borrowers but is prone to underestimate such risk from time to time because of personal interaction with loan applicants. Under such circumstances, Scheepens argues, an external credit committee will ensure that loan decisions are sufficiently risk averse and help weed out ineffective loan officers. The second supervisor in this example is not at risk of collusion, but Kofman and Lawarrée (1996) see a role for dual delegation even in cases where this assumption does not hold by showing that two supervisors can reveal information about the quality of supervision even when both are at risk of colluding with the agent.

Applied to the case at hand, the first of these hypotheses conjectures that EU leaders turned to the IMF as a second supervisor because of contractual problems pertaining to the Commission. This line of reasoning chimes with Rogers (2012: 184) who sees the involvement of the Fund as the product, in part, of the constitutional limitations on one EU member state being seen to bail out another. Although Article 125 TFEU prohibits the EU from assuming the commitments of member states, the Treaty did not prevent the EU from providing loans to Hungary, Latvia and Romania. Under Article 143 TFEU, it falls to EU finance ministers to decide the 'details and conditions' of such balance of payments assistance, which they duly did by adopting Council Regulation (EC) No. 332/2002 five years before the global financial crisis struck. Under this regulation, it is for the Commission 'to verify at regular intervals' compliance with the conditions attached to these loans. A more immediate problem in November 2008 was that the total amount of loans that could be raised through this instrument was limited to €12 billion, which was less than half of what the Hungarian government requested. Re-contracting did not prove problematic, however; EU finance ministers raised the loan ceiling to €50 billion in the months that followed with little legal difficulty.[14]

Constitutional constraints were more salient when it came to supporting Greece since Article 143 TFEU, as noted above, does not extend to euro area members. As a result, EU leaders relied on a combination of ad-hoc intergovernmental agreements and a not uncontroversial interpretation of the Treaty to put in place a firewall for the euro area.[15] The IMF faced nowhere near the same contractual constraints here. Procedurally, the Fund had a range of longstanding loan facilities to draw on. Greece, for example, received €30 billion in May 2010 under a Stand-By-Arrangement launched in its original form in 1952. Ireland and Portugal, meanwhile, were offered loans of €22.5 billion and €26.0 billion respectively under an Extended Fund Facility created in 1974. Raising loans of this magnitude was not straightforward for the Fund; the €12.5 billion granted to Hungary in November 2008 was the largest IMF loan relative to quota since the one offered to Turkey in 2002 (IMF, 2011: 8) and the €30 billion granted to Greece in May 2010 was the largest ever in this respect (IMF, 2013: 9). The IMF wasted little opportunity, however, in using the global financial crisis as a pretext for securing more financial resources. A major coup in this regard was the $430 billion in additional resources pledged to the IMF by G-20 members in April

2012 in response to the worsening of the euro area crisis. Viewed from a principal-agent perspective, this confirms the extent to which the IMF has been empowered by the global financial crisis in general and European economic difficulties in particular and so goes some way towards explaining the Fund's willingness to involve itself in EU affairs.

Although this comparison of the constitutional constraints facing the Commission and IMF suggests that EU member states' dealings with the latter were more straightforward when it came to managing the euro area crisis, this still does not explain EU leaders' decision to involve the Fund as a delegated monitor. Two points here rest uneasily with the first of our two hypotheses. First, EU leaders moved relatively quickly to address contractual uncertainty surrounding support for Greece and other euro area members. By December 2010, EU leaders had agreed to revise Article 136 TFEU so as to allow for the creation of a stability mechanism for the euro area. Second, as previously noted, EU leaders looked to the IMF as a delegated monitor even in those cases where financial contributions from the Fund were not sought.

Turning to the second hypothesis, is there any evidence to suggest that EU looked to the IMF as a delegated monitor because of concerns over collusion? On the one hand, this suggestion sits uneasily with the Commission's high degree of statutory independence and with the EU executive's track record for enforcing the stability and growth pact's corrective arm – which prohibits government borrowing in excess of 3 per cent of GDP – sometimes against the better judgement of the member states. [16] On the other hand, the procedures underpinning the stability and growth pact are ripe for collusion between supervisor and agent entailing as they do long-term interaction between officials from the Commission and member states and bureaucratic as they are in character. On the first of these points, it should be recalled that the Commission's track record in enforcing the preventive arm of the pact – which requires member states to achieve budgetary positions of close to balance or in surplus over the medium-term – was mixed, owing to a reluctance to name and shame member states after early attempts to do so backfired (see Hodson, 2011: Chapter 5). The bureaucratic character of the stability and growth pact, meanwhile, can be seen in the perennial criticism that the Commission failed to attach sufficient weight to the stability and growth pact's debt criterion, which requires member states to keep government debt as a percentage of GDP below 60 per cent (see Gros, 2003).

If concerns over the credibility of the Commission were thus present before the euro area crisis struck, they only intensified thereafter. This can be seen most clearly in relation to Greece, which dealt a severe blow to EU fiscal surveillance when the newly elected government of George Papandreou came clean in October 2009 about widespread inaccuracies in the reporting of Greek public finance statistics. This announcement, which saw Greece's budget deficit estimate for 2009 revised from 3.5 per cent to 12.7 per cent, was particularly galling for the Commission coming as it did four years after an investigation by the EU executive into the reliability of this country's public finance statistics had sought to draw a line under the matter (Panagiotarea, 2013: 129–30). Faced with this situation, the Commission stepped up its efforts at enforcement by recommending emergency revenue raising measures and swingeing expenditure cuts to get the Greek budget deficit below 3 per cent of GDP by 2012 (Commission, 2010b).

Lütz and Kranke (2014) see such enforcement strategies as a reflection of the EU's fiscal orthodoxy, but they can more accurately be seen as the product of social interaction between the Commission as delegated monitor and member state agents. Both sides in this exchange had a strong interest in showing compliance. For the member states concerned, compliance was the last roll of the dice before seeking external assistance. For the Commission, compliance was not only about tackling the unfolding fiscal crisis but also about signalling that EU fiscal surveillance continued to function. The EU executive was less fiscally conservative here than Lütz and Kranke (2014) imply. The Commission, it is true, did recommend swingeing expenditure cuts and emergency revenue-raising measures in Greece in February 2010 but such policies were largely cut and pasted from Greece's own stability programmes. The EU executive was also more lenient towards other member states. The Commission, for example, did not recommend further disciplinary measures against Hungary under the stability and growth pact until after the EU-IMF programme was in place on the grounds that this member state had complied with earlier recommendations for corrective action. When it came to Ireland, meanwhile, the Commission exploited the flexibility of the stability and growth pact to the full by concluding that this member state had complied with earlier recommendations for corrective action and/or been subject to circumstances beyond their control (Commission, 2009c). This assessment remained in place even as Ireland's debt to GDP ratio soared, a fact that exemplified the bureaucratic character of EU fiscal surveillance, with its emphasis on budget deficits rather than broader measures of fiscal sustainability.

That the IMF could have claimed more credibility than the Commission at this juncture is a matter of debate. For its part, the Fund has certainly sought to portray itself as a more credible player than the Commission in retrospect with an ex-post evaluation of the Fund's Stand-By-Arrangement for Hungary suggesting that the EU's governance procedures resulted in a lack of flexibility and insufficient haste when it came to crisis monitoring (IMF, 2011: 35). The Fund's ex-post assessment of the 2010 Stand-By-Arrangement for Greece was blunter still in its suggestion that prior to the Greek programme, the Commission ‘had enjoyed limited success with implementing conditionality under the Stability and Growth Pact, and had no experience with crisis management’ (IMF, 2013: 31). Views from outside the IMF are more equivocal in their assessment of Fund surveillance. Arriazu, Crow and Thygesen (1999: 56) conclude that the IMF is altogether more rigorous in its assessment of national economic policies than the Commission services, but a more recent study by Pisani-Ferry, Sapir and Wolff (2011: 2) suggests that the Fund's ‘[e]agerness to play a role in the complex European policy process reduced the IMF's effectiveness as an independent and critical observer of the euro area’. While the latter assessment implies that the Fund was itself at risk of collusion with EU member states, a follow up paper by the same authors suggests that the Commission posed a greater risk in this regard. In a detailed study of the troika in action, Pisani-Ferry, Sapir and Wolff (2013) see the IMF as being a fairly neutral broker in its dealings with euro area members but argue that the Commission faced a ‘conflict of interest’ over its role as enforcer of EU fiscal rules and crisis monitor.

Member states had reason, therefore, to be concerned over the Commission's credibility as a crisis monitor but did this motivate their decision to involve the IMF

in overseeing the conditions attached to EU loans? The available evidence here does not tell a straightforward story but it is nonetheless consistent with the second of our hypotheses. Whereas Rogers (2012) treats the EU as unitary actor with clear cut preferences for turning to the IMF, member states were, in fact, deeply divided over the Fund's role. These divisions were on display at an informal summit of euro area heads of state of government in February 2010 at which some of the leaders present favoured a European response to Greece's unfolding sovereign debt crisis, while others looked to the IMF. The first of these camps included France and Spain, with French officials seeking agreement on bilateral loans to Greece in advance of this meeting and Spanish Prime Minister José Luis Rodriguez Zapatero vocal in his support for a European solution (Charter, Bremner and Waston, 2010). The second camp included two non-euro area members, the UK and Sweden, with officials from both countries arguing that only the IMF had the technical expertise to provide support for Greece. A reluctance to foot the bill for saving the single currency was plainly a factor here too (see Darling, 2012: 301).[17]

Why euro area members such as France and Spain were so reticent about EU involvement remains an open question. Spain was already facing double-digit deficits by early 2010 and may for this reason have been concerned about its own fate at the hands of the IMF. France's fiscal situation was not nearly so bad at this time but involving the IMF ran contrary to President Nicolas Sarkozy's plan for strengthening euro area heads of state or governments' grip over the governance of EMU.[18] In spite of their differences, the heads of state or government agreed at this meeting that the Commission should draw on 'the expertise of the IMF' in proposing additional efforts to help the Greek government meet its targets in relation to the EU stability and growth pact (EU Heads of State or Government, 2010).

If the Fund's involvement at this stage suggested a lack of confidence in EU economic surveillance, this judgement became more explicit in the weeks that followed. A key intervention at this juncture was German Finance Minister Wolfgang Schäuble's call in March 2010 for the creation of a European Monetary Fund. While some accounts of this period see Schäuble and Merkel as divided over the desirability of a European solution to the crisis (Kornelius, 2013) the two ultimately came to the view that not involving the IMF was unworkable in the short-term because EU economic governance lacked credibility. For Schäuble (2010), a European Monetary Fund was desirable but he accepted that it would be feasible only in the presence of reforms to achieve much 'stricter sanctions within the framework of budget deficit proceedings'. Merkel put this point more plainly at a summit of EU leaders later that month when she argued in favour of involving the IMF 'because at present the handling of deficit procedures isn't sufficiently regulated, Europe isn't in a position to solve such a problem on its own' (Francis, 2010).

Germany was in a relatively strong position at the March 2010 summit since, by virtue of its economic size, it stood to be the biggest contributor to any EU loans to Greece. It is unsurprising, therefore, that EU leaders ultimately sided with Merkel by agreeing, in principle, to involve the IMF in providing financial support to Greece and setting in motion reforms to EU economic surveillance (European Council, 2010). Within two months, the IMF's role in monitoring the conditions attached to European loans had been facilitated through the creation of the European Financial Stability Facility and codified with the signature of the European Stability Mechanism Treaty

in July 2011. It took until December 2011 until a set of reforms, designed, in part, to bolster the Commission's credibility in relation to EU economic surveillance, were in place, but even then concerns on this point persisted. One indication of such concerns was EU leaders' decision to press ahead with a new intergovernmental Treaty on Stability, Coordination and Governance in the Economic and Monetary Union in March 2012. Another was the adoption in May 2013 of the aforementioned two-pack, a set of measures designed to reinforce EU fiscal surveillance yet further (Commission, 2013).

Seen in terms of the multiple supervisor approach, the available evidence is consistent with the second hypothesis, which explains delegation to a second monitor as a response to concerns over collusion between the first monitor and the agent. Whether the IMF was a more credible monitor than the Commission here is a moot point but what is clear is that EU leaders' confidence in the EU executive as a delegated monitor faded fast as the financial crisis took hold. This was true in spite of the best efforts of the Commission and member states affected to demonstrate commitment to the stability and growth pact. The Commission's focus on demonstrating compliance reflected not an ideological commitment to fiscal austerity as Lütz and Kranke (2014) and Rogers (2012) suggest, so much as the bureaucratic character of EU fiscal surveillance with member states treated leniently providing they had been seen to address earlier recommendations. Nor does the EU emerge here as a unitary actor. EU member states were initially divided over what role, if any, the IMF should play, but they eventually came to the view that EU surveillance lacked credibility and so contracted with the Fund to play a role alongside the Commission.

IV. THE CONSEQUENCES OF EU DELEGATION TO THE IMF

The emergence of the IMF as a de facto institution of the EU raises profound concerns about procedural legitimacy. Since it is not named as a de jure institution of the EU under the Treaties, the Fund is not, in spite of its intimate involvement in European crisis management, required to promote the EU's 'values, advance its objectives, serve its interests, those of its citizens and those of the Member States' nor bound to 'act within the limits of the powers conferred on it in the Treaties' (Article 2 TFEU). Whereas the Commission's crisis management role is subject to a degree of oversight from the European Parliament, [19] the IMF cannot be held to account easily by the EU's legislature in spite of the Fund's influence over the economic surveillance of Greece and other EU member states. The two-pack reforms respond to this problem by allowing the European Parliament to invite representatives of the IMF to an economic dialogue but the Fund is neither required to attend nor bound by matters arising from the dialogue. [20]

Familiar though such concerns about accountability are from the literature on IMF legitimacy (Bird and Willett, 2004; Best, 2007; Buiter, 2007) they make limited sense from a principal-agent perspective, which struggles with normative considerations (Pollack, 2007). If anything, it follows from agency theory that there may be advantages to EU members states in terms of accountability to delegating decisions to Washington DC rather than Brussels, accountability being a necessary but not a sufficient condition for legitimacy. For Tallberg (2003), there is a trade-off between the credibility gains of giving the Commission the power to supervise member states and the agency loss that occurs when the Commission uses its position to push its

political objectives. In keeping with much of the literature on European integration, Tallberg assumes here that the Commission's political preferences are directed towards the pursuit of European integration, either for reasons of self-interest or ideology (Tallberg, 2003: 27–8). All of this raises the question of why member states would not look to other monitors that might be as or more credible than the Commission but less predisposed towards the pursuit of ever closer union.
The IMF, of course, is neither an indifferent nor a disinterested party when it comes to European matters. This is true for functional reasons – given its size, the EU has a profound effect on the fortunes of the world economy and a collapse of EMU would be little short of disastrous for the international monetary system – but also for ideational ones. In his official history of the Fund, Boughton (2001) sees the IMF as being broadly sympathetic to the European project. Noting some initial scepticism among Executive Directors about the European Monetary System, the fixed exchange-rate regime launched by the EEC in 1979, he finds that the IMF Executive Board and Fund staff were supportive of European efforts to create a zone of monetary stability and more enthusiastic still about the idea of EMU. [21]

Be that as it may, there are three main reasons to expect the IMF to be less positively disposed than the European Commission towards the European project. First, around two-thirds of professional and managerial staff at the IMF come from outside Europe, whereas all but a handful of administrators in the Commission come from outside the EU-28.[22] Second, although many in the upper echelons of the Fund have experience of EU affairs – not least a succession of European Managing Directors over the years – the majority are subject to neither the selection bias nor the socialization effects that are thought to promote a pro-integrationist outlook among Commission officials (see Pollack, 2003). Third, although European integration may in some circumstances allow the IMF to engage in competence maximising behaviour (see Broome, 2013) the bureaucratic gains for the Commission are likely to be greater.

In the light of such expectations, it is all the more interesting to observe just how like a traditional engine of European integration the IMF was in the aftermath of the global financial crisis. A case in point concerns the IMF's call in April 2009 for some Central and Eastern European countries to adopt the euro even if the formal requirements for joining the euro area had not been met. This proposal for unilateral euroization received short shrift from the Commission, as Lütz and Kranke (2014: 320) note, with the EU executive insisting that member states meet the convergence criteria set out in the Treaty first even if this delayed the enlargement of the euro. More general examples of the IMF's enthusiasm for integration range from IMF Managing Director Dominique Strauss-Kahn's proposal in March 2010 for a European bank resolution authority (Strauss-Kahn, 2010) to his plea two months later for euro area members to move towards a system of fiscal transfers (Giles, Barber and Oakley, 2010).

In both these cases, the IMF Managing Director's efforts at supranational entrepreneurship (Moravcsik, 1999) far exceeded those of Commission President José Manuel Barroso, who was hesitant in this period about turning the global financial crisis into an opportunity for European integration. Barroso's hesitancy can be seen in his administration's modest proposals for strengthening financial supervision in September 2009 and its failure to put forward proposals for a supranational crisis resolution mechanism before the ESM Treaty was signed (Hodson, 2013). Barroso

would show greater ambition later on, it is true, but he did not call publicly for European Banking Union, for example, until political momentum was shifting in favour of this project. [23]

Strauss-Kahn could be seen as a unique case here given his personal relationship with the project of European integration. He is, after all, a self-styled founding father of the euro and was, until his fall from grace in May 2011, a contender for the French presidency. Calls for deeper political integration among euro area members have been par for the course in recent French presidential elections so Strauss-Kahn arguably had a good reason here to use his position in the IMF to preach to the pro-European choir.[24] To reduce the IMF's preferences to Strauss-Kahn's personal ideology and career advancement, however, would be to ignore the Fund's continued efforts at supranational entrepreneurship after the Frenchman's resignation. Such efforts can be seen, for example, in the Fund's vocal support for a European banking union, a project proposed by the European Commission in May 2012 and later endorsed by European Council President Herman Van Rompuy in a high-level report on EMU. This support came not only from Strauss-Kahn's successor as IMF Managing Director, Christine Lagarde, (Spiegel, 2012) but also from IMF staff (see Goyal et al., 2013). The IMF's involvement in European surveillance efforts also allowed it to play an important behind the scenes role. This was true, for example, in relation to financial supervision. Within the Eurogroup Working Group, which prepares meetings of euro area finance ministers, the IMF emerged as a key proponent of further financial integration (Pisani-Ferry, Sapir and Wolff, 2013: 22).

If EU leaders thus got a more integrationist minded monitor than might have been expected did they at least get a more credible one by involving the IMF? This is not a straightforward question to answer since the surveillance efforts of the Fund and Commission have proceeded in lock step for the most part. Review missions to member states in receipt of emergency loans have been conducted in tandem with officials from the Commission, ECB and IMF holding joint meetings with national authorities. Such meetings are typically accompanied by a joint memo from the troika in which compliance with loan conditions is assessed. It is on the basis of these memos that EU finance ministers (in the case of European contributions) decide on further loan disbursements. On the rare occasions in which disagreement between the two sides is discernable, the Commission emerges as more hawkish than the IMF in some cases and less so in others but in all instances the EU executive appears preoccupied with ensuring compliance with the procedures underpinning euro area governance.

In the case of Latvia, for example, the fact that the IMF favoured devaluation while the Commission defended the peg between the lat and euro is seen by Lütz and Kranke (2014) as a sign of the EU executive's more orthodox position on conditionality. Yet such differences can be seen in bureaucratic terms as an attempt by EU officials to ensure consistency with a policy commitment that was set out in Latvia's Convergence Programme for the period 2008–2011 (Ministry of Finance of the Republic of Latvia, 2008) and endorsed by EU Finance Ministers. [25]

In the case of Greece, meanwhile, it was the IMF that emerged as the more fiscally conservative of the two monitors when the two sides differed in autumn 2012 over debt sustainability analysis. Initially, the Commission had sought to give Greece until

2022 to reduce its government debt as a percentage of GDP to 125 per cent with the Fund insisting that a target of 120 per cent should be reached by 2020. Bureaucratic procedures were at play once again here with Greece's obligations under the stability and growth pact focusing primarily on deficits rather than debt, thus giving the Commission leeway to revise long-range debt targets when economic conditions took a turn for the worse. In the end, euro area finance ministers delayed their decision over the disbursement of further EU loans to Greece until a deal was reached between the Commission and the IMF to seek a debt to GDP ratio of 124 per cent by 2012 and 'substantially lower than 110 per cent' by 2022 (Eurogroup, 2012).

If the delegation of supervisory powers to the IMF thus raises familiar concerns for the EU about the search for more credible modes of monitoring at the expense of empowering integration-minded institutions, what about the welfare implications for the Fund's other principals? Thus far, this article has focused exclusively on the EU's emerging agency relationship with the IMF but the Fund is, of course, an agent of multiple principals. The most relevant of these relationships for the multiple supervisor approach concerns the IMF's role as a delegated monitor for economies outside the euro area. A recurring concern in this context is that the IMF has been captured by a subset of European principals. Such concerns were evident, for example, in suggestions by South Korean officials that the conditions attached to Greek loans in May 2010 were lenient by the Fund's usual standards (Brown, Oliver and Johnston, 2010). The IMF staff's own ex-post evaluation of Greece lent support to this claim by suggesting that euro area members blocked discussions over debt restructuring in negotiations over the first EU-IMF package for Greece and stalled in discussions over the fiscal stance thereafter (IMF, 2013). More significant from the point of view of surveillance was the IMF staff's conclusion that the troika lacked 'a clear division of labour' in contrast to the Fund's cooperation with the World Bank. The report pointed the finger at the Commission here for its insistence on being 'involved in all aspects of the program to ensure conformity with European laws and regulations' (IMF, 2013: para. 63).

Faced with unforeseen or undesirable outcomes, renegotiation is usually an option for principals. Scholars typically focus in such circumstances on the contract between principal and agent but a change to the formal or informal agreements that bind a multiple principal together is another possibility. Such a change is arguably already underway in response to the euro area sovereign debt crisis. In December 2010, the IMF Board of Governors agreed on a further round of quota reforms. Under this deal, which is yet to be implemented as of July 2014, emerging market and developing countries saw their quota shares, a key determinant of voting power in the IMF, increase by more than 6 per cent, with China becoming the third largest economy represented in the Fund, and Brazil, India and Russia entering the top ten. The BRICs' gain, in this instance, was the EU's loss, with France, Germany and the United Kingdom seeing their quotas decline relative to that of China and the total number of seats occupied by European countries on the Executive Board set to decline by two. Given the consensual character of principal-agent-supervisor relationships the possibility also remains here that the IMF might reconsider its role as a delegated monitor of the EU. In the preceding discussion it was suggested that the Fund joined forces with the EU following the financial crisis for reasons of self-interest or ideology. In the case of the former, the IMF's involvement in the provision of financial support to EU member states was seen as a way for the Fund to boost its

depleted financial resources and maximize its competences through enhanced surveillance. In the case of the latter, the possibility that the Fund is committed to the project of European integration was also considered. Such reasons may carry less weight over time, especially if the costs of cooperation with the EU mount. That a shift may be underway here is suggested in the IMF staff's June 2013 ex-post evaluation of the first Greek programme. This report acknowledged ‘misgivings’ within the Fund about the terms offered to Greece and frustrations with the workings of the troika, including the European Commission's insistence on being ‘involved in all aspects of the program to ensure conformity with European laws and regulations’ (IMF, 2013: 31). Support for Greece was justified by the ‘danger of contagion’, the report concluded (IMF, 2013: 1), but the corollary of this point is that the IMF might think twice about cooperation with the EU when the stakes are lower.
The European Commission's response to this ex-post evaluation of Greece was predictably defensive, with the Commissioner for Economic and Monetary Affairs Olli Rehn criticizing the IMF in June 2013 for attempting ‘to wash its hands and throw the dirty water on the Europeans’ (Spiegel and Hope, 2013). That EU heads of state or government did not side with the Commission in this spat was interesting. It suggests that although the IMF staff may be having second thoughts about its involvement in EU policy-making, EU leaders are not yet prepared to reconsider their relationship with the Fund. That this is the case is not surprising given continued concerns over the credibility of EU economic surveillance even after the reforms enacted in November 2011.

V. CONCLUSION

James H. Boren (1972: 39) offers three celebrated instructions to bureaucrats: ‘When in charge ponder. When in trouble delegate. When in doubt mumble.’ The global financial crisis of 2007–2008 and the sovereign debt crisis that followed created trouble for the EU on a scale that it had never before seen. EU leaders responded to economic instability in Hungary, Latvia and Romania by joining forces with the IMF to offer emergency loans and, after several months of pondering and no shortage of mumbling, agreed to do likewise for Greece and other euro area members. Together these arrangements saw EU leaders turn to the IMF not only as a co-financer but also to work alongside the Commission in overseeing the conditions attached to European loans and as part of EU economic surveillance efforts more generally.

This article has sought to understand the IMF's role in EU policy-making using a multiple supervisor variation on the classic principal-agent-supervisor model. In this approach, EU leaders can be conceptualized as a collective principal that has enlisted the services of both the IMF and the Commission as delegated monitors. This dual delegation, it is argued, had less to do with problems of incomplete contracting in relation to EU crisis management than with concerns over the credibility of the Commission as a crisis monitor. In the case of the former, EU leaders moved to address legal uncertainty surrounding the provision of financial support to member states through intergovernmental agreements and treaty revisions. In the case of the latter, last ditch efforts by the Commission and member states to show compliance with the stability and growth pact failed to convince financial markets and, in so doing, spoke to concerns about the risk of collusion between supervisor and agent. Faced with such concerns, EU leaders came to see the involvement of the IMF in

surveillance as inevitable in view of perceived problems of enforcement in relation to the stability and growth pact.
This interpretation challenges existing accounts of the EU's involvement with the Fund, which treat the former as a more or less unitary actor with strong preferences for fiscal austerity (Rogers, 2012; Lütz and Kranke, 2014). The multiple supervisor approach presented in this article emphasizes the importance of intra-EU politics between euro area heads of state or government on the one hand and the European Commission on the other. The Commission is treated as neither more nor less conservative than the Fund on the whole; instead it sees the Commission as a bureaucratic actor, in the tradition of Tirole (1992), which takes a fiscally conservative line where compliance with the stability and growth pact is at stake but shows flexibility where the EU's fiscal rules allow. This chimes with the argument of Pisani-Ferry, Sapir and Wolff (2013) that the Commission faced a conflict of interest over its role as crisis monitor and guardian of euro area governance, which in turn lends weight to the central argument of this article that EU leaders turned to the IMF in search of credibility.

The analysis presented in this article is relevant for our understanding of the IMF's role in EU policy-making but it also speaks to wider debates about the governance of the EU and the IMF. For students of EU governance, the multiple supervisor approach is of relevance for understanding the proliferation of EU bodies, offices and agencies in recent years as well as the EU's increasing interaction with international organizations. The consequences of delegation to the IMF are also of interest here with the Fund's greater willingness to make the case for more Europe challenging the idea that the Commission is hardwired for the pursuit of further integration (see Pollack, 2003, Tallberg, 2003). For students of the IMF, meanwhile, the multiple supervisor approach provides an opportunity to think about the Fund in a hitherto neglected contractual context. Existing applications of agency theory to the Fund have tended to focus on relationships within the IMF or between the IMF and its borrowers. Such relationships remain of paramount importance but due regard should also be paid to the Fund's police patrol role in relation to surveillance (Lombardi and Woods, 2008; Moschella, 2012) as well as its contractual relations with other multilateral organizations (Gould, 2006).

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Notes
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7 IMF Survey (2008) ‘Hungarian central bank building in Budapest: Hungary's program aims to strengthen the financial sector’, IMF Survey Magazine: Countries & Regions, 28 October.
8 The IMF provided €12.5 billion in the form of a Stand-By-Arrangement. The EU provided €6.5 billion using its balance of payment facility. The World Bank also contributed €1 billion to this package. See Gould (2006) for a discussion of the Bank's role as a supplementary financer in IMF programmes.
9 Council Decision (2009/102/EC) providing Community medium-term financial assistance for Hungary (OJ L 37, 6.2.2009).
10 Council Regulation (2010/407/EU) establishing a European financial stabilization mechanism (OJ L 118, 12.5.2010).
11 Council Implementing Decision (2011/77/EU) on granting Union financial assistance to Ireland (OJ L30/34, 7.10.2010).
12 Article 13, European Stability Mechanism Treaty.
13 Article 3, Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability (OJ L 140, 27.5.2013).
14 Council Regulation 2009/431/EC amending Regulation (EC) No 332/2002 establishing a facility providing medium-term financial assistance for Member States' balance of payments (OJ L 128, 27.5.2009).
15 The EFSM was created under Article 122 TFEU, which envisages financial support for member states ‘facing difficulties caused by natural disasters or exceptional occurrences beyond its control’.
16 This fact can be seen most clearly in EU finance ministers’ failure to support recommendations to take disciplinary measures against France and Germany in November 2003.
17 FT Reporters, ‘EU Splits Emerge on Greek Plan’, Financial Times, 10 February.
18 Electoral politics may have played a role here too insofar as involving the Fund meant giving Dominique Strauss Kahn, IMF Managing Director and at that stage the frontrunner to be Socialist candidate for the 2012 French Presidential elections, a prominent role in euro area affairs.
19 Article 121 of the Treaty on the Functioning of the European Union, for example, requires the President of the European Council and the Commission to keep the Parliament informed of the results of EU macroeconomic surveillance.
20 Article 3, Regulation (EU) No. 472/2013.
21 The IMF does not appear to have been quite so enthusiastic about monetary unions in other parts of the world but nor does it appear to have been especially critical. According to Boughton (2001: 78), the Fund adopted a laissez-faire approach in the 1980s to arrangements such as the Communauté Financière Africaine (CFA) franc zone and the East Caribbean dollar area.
22 See Web Table 5.1 of IMF (2012) and table on ‘Distribution of Officials and Temporary Agents by Sex, Nationality, Category and Grade’ at <http://ec.europa.eu/civil_service/about/figures/index_en.htm>.
23 Barroso's call for banking union in June 2012, for example, came just over two weeks before EU leaders agreed on the first step towards this union.
24 In 2007, for example, Nicolas Sarkozy successfully campaigned on a platform of strengthening euro area governance.

25 Council opinion of 10 March 2009 on the updated convergence programme of Latvia, 2008–2011 (OJ C 68, 21.3.2009).

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