INTRODUCTION

The IMF and World Bank are targets of endless criticism. Left-wing groups denounce them as tools of U.S. imperialism. Antiglobalization websites accuse them of enforcing global capitalism. Right-wing think tanks accuse the Fund and Bank of supporting corrupt elites and governments that cripple their economies, maul their environments, and oppress their people. In 2004 it was revealed that even the terrorist group Al Qaeda may have planned an attack on the institutions.

Protesters see the IMF and World Bank as bastions of capitalism and globalization. Some would like to reverse both processes. Others criticize the institutions but see them as vital if governments are going to manage the global economy—an alternative to unfettered capitalism in which firms and private actors compete without restraint and governments stand by and watch. So what are the IMF and the World Bank, what do they do, and how well do they do it?

Since at least the early 1980s, the IMF and the World Bank have encouraged countries to integrate into the world economy. Each institution presents dazzling figures about the overall gains to be made from integration. If the world were further to liberalize trade, the World Bank estimates, within ten years developing and industrial countries would stand to gain additional income of US$1.5 trillion and US$1.3 trillion respectively, with the gains lifting an additional 300 million people out of poverty by 2015 (World Bank 2003). The IMF highlights the potential gains to be made by freeing up flows of money and opening up capital accounts, pointing out that net flows to developing countries tripled, from roughly $50 billion a year in 1987–89 to more than $150 billion in 1995–97 (IMF 2005).

This vision has been translated into a determination to ensure trade liberalization, privatize state-owned enterprises, open up developing countries to foreign investment, and deregulate labor markets in member countries. Yet unleashing these market forces was not the core part of the original mandate of

each organization. These public sector institutions were created not to feed global markets but to step in where markets fail and mitigate the harsh effects of global capitalism.

The founders of the IMF and World Bank created them to help balance growth in the world economy. They wrote charters for the institutions directing them to protect employment and standards of living in all countries, and also to facilitate the *balanced* growth of international trade, stimulate employment and real income, and develop the productive resources of all member countries. In each institution these goals were to be achieved through a pooling of resources, credit risk, and information and research capacity. Working together, governments could overcome barriers to cooperation and mutual assistance. Politics and political influence would be kept out of institutions. Boards of proficient technocrats would run them, and highly trained economists would staff them.

What happened to that dream? In 2000 Joseph Stiglitz controversially described the IMF's economists as "third-rank students from first-rate universities" and argued that their use of out-of-date economics had forced East Asian countries and Russia to undertake the wrong economic policies and driven them deeper into crisis (Stiglitz 2000, 2002). On the face of it, his remark suggests that economic theory—good or bad—defines the work of the IMF and the World Bank. Stiglitz and others characterize the institutions as technocratic agencies, generating and applying economic knowledge. On this view a new and better Washington consensus applied by the institutions could rectify their alleged wrongdoing (Stiglitz 2002). I disagree.

The IMF and the World Bank are political institutions created by governments to achieve particular purposes that have changed over time. In every decade, their major shareholders have set clear financial and political limits on what each agency does. Equally powerful in shaping the agendas of the Fund and the Bank are the staff and management, who seek to protect and advance their turf. Like most bureaucracies, these two tend to fall back on existing habits and solutions to deal with unforeseen and unexpected problems, tailoring their solutions or advice to match available resources. What they do is not just a product of how good their economics is or isn't.

This book is about the relationship between political power, economists, and borrowing governments in the work of the IMF and the World Bank. It sets out to untangle how politics, ideology, and economics drive them. It explains why the institutions do what they do, how they learn (or fail to learn) from their successes and failures, and how their behavior has evolved over time. That said, I focus specifically on the lending relationships between the institutions and their members and not the role of either institution in monitoring, regulating, or reporting on relations among industrialized countries (cf. Pauly 1997).

The Globalizers

The greatest success of the IMF and the World Bank has been as globalizers. As this book will show, they have integrated a large number of countries into the

world economy by requiring governments to open up to global trade, investment, and capital. They have not done this out of pure economic zeal. Politics and their own rules and habits explain much of why they have presented globalization as a solution to challenges they have faced in the world economy.

By the late 1990s the IMF and World Bank were particularly focused on three different problems in the world economy. The first and most obvious was crisis management. In East Asia and Latin America the institutions were called on to manage and contain financial crises. A second and sometimes overlapping role was transition. In Russia and the former Soviet republics, both the Fund and the Bank were deployed to foster transition from centrally planned to market-oriented economies. The third role shared by the institutions was development in the poorest, often war-torn parts of the world. In Africa and in some of the least developed countries in the world the institutions have been attempting to jump-start development and to alleviate poverty.

In each role, the institutions have been guided by the governments that created and run them and in particular by their most powerful member states. They have also availed themselves of impressive resources—economists, research, data, personnel, and lendable funds—all mainly based at their headquarters in Washington D.C. Yet the efforts of both institutions in all their three major roles have been widely criticized, even within their own walls. In financial crises they have been derided for imposing harsh and ineffective conditions. In Russia and the former Soviet republics they have been accused of fostering crony rather than market capitalism. In respect of Africa, critics converge in accusing both institutions of contributing to an ongoing crisis of indebtedness, stagnation, and poverty.

Evidence of failure has provoked ongoing change in each institution. Some would say they have learned from their experiences. In the IMF in recent years the scope and content of conditionality have been questioned and to some degree rewritten. Operational methods have been expanded. The institution has created an office of independent evaluation to better learn from its experiences. In the World Bank change has been more dramatic. The institution has not only sought constantly to improve its thinking or "development framework," it has also gone through several bouts of internal restructuring and reform. In both institutions the experiences of the 1980s and 1990s have led to a rewriting of what outsiders call the Washington consensus. The result is that the Bank and Fund now advocate a set of policies that emphasize good governance and the need for sound political and legal institutions as a prerequisite for effective economic policy.

What is not clear is how far the institutions will take their learning process. Their rhetoric increasingly emphasizes goals of equitable economic development and poverty alleviation in borrowing countries, yet they face the same resource constraints as before in dealing with these issues. Both institutions have paid lip-service to a new, more participatory and inclusive formulation of policy, emphasizing stronger "country ownership and participation." Taken seriously, this approach would entail a radical change not just in the content of conditionality but in the day-to-day work, headquarters, structure, and staffing of each of these Washington-based institutions. Each institution has decentralized a little—the

World Bank far more than the IMF. However, more profound changes are unlikely to be in the minds of the most powerful member countries that control the institutions.

Riding Three Horses at Once

This book explains why the IMF and World Bank do what they do. Neither institution fails because it is run by economists incapable of dealing with contemporary economic problems. Instead, three distinctive forces shape what the institutions do and determine how effectively they do it.

First, powerful governments influence the agenda and activities of both the IMF and the World Bank. The political preferences of the United States and other industrialized countries provide a strong bottom line or outer structural constraint within which the IMF and World Bank work. In high-profile cases where major economic or geostrategic interests are at stake, such as in Argentina, Korea, or Russia, the U.S. Treasury leaves a clear trail. But this leaves a lot unexplained. Competing and different interests within the United States can lead the institutions in different directions. Furthermore, the United States does not always take a strong interest in the activities of the IMF and World Bank, such as in parts of sub-Saharan Africa.

Beyond the bottom line set by powerful governments, the work of the IMF and the World Bank is influenced by professional economists whose labors are in turn shaped by a particular institutional environment. The work of economists is vital in providing roadmaps for policymakers contemplating change. Technical work is almost always a necessary condition for policy change. But policy is shaped by other forces. Often Fund and Bank prescriptions are based neither on clear evidence nor on pure expert analysis or predictions. Instead they reflect bureaucrats trying to square political pressures and institutional constraints.

Finally, the Fund and Bank rely heavily on relationships with borrowing governments. Without a strong demand from member governments for loans as well as monitoring, the institutions would have no fee-paying clients. When they work with governments, their influence is in part persuasive and in part coercive. They can lend, catalyze other lending, or indeed stop lending. Equally, they can define, impose, and monitor tough conditionality on borrowers. This gives them obvious bargaining power. But the record of failed conditionality reveals that borrowing governments seldom actually do as they are told (Killick 2002). The power to enforce conditionality by withholding money or the like can be easily dissolved by powerful political pressures to continue lending. Equally, the institutions sometimes have their own reasons for not enforcing conditionality, such as to ensure repayment of their loans. This puts an emphasis on a more subtle, persuasive kind of influence.

The IMF and World Bank bring potential solutions to policymakers in crisis-ridden member countries. These solutions are backed up by the status and imprimatur of the institutions and sometimes they tip the domestic political balance.

Put another way, where a policymaker wishes to pursue a particular policy, Fund or Bank conditionality can give him or her an additional bargaining chip with which to persuade or marginalize domestic opponents particularly in the context of a crisis. Reformists in South Korea, for example, after the financial crisis in 1997, were able to rapidly pass institutional reforms in the financial sector that had previously been recommended by a national Financial Reform Commission and rejected by legislators (Haggard 2000, 102). Equally, in Mexico and Russia, as chapters of this book reveal, external pressure has played a critical role in weighting the case of one group of policymakers against another.

The persuasive influence of the IMF and World Bank is at its height when dealing with able and willing interlocutors in borrowing governments. Where government officials are sympathetic to the policies prescribed by the Fund and Bank, and where these officials enjoy power and authority to implement such policies, the Fund and Bank will succeed. Paradoxically, this success becomes more and more difficult as policy-making is opened up to greater numbers of participants, more interest groups, and further debate. Throughout the 1980s the Fund and Bank enjoyed particularly secretive and insulated relations with government officials. This enhanced the institutions' capacity to offer sympathetic policy-makers some leverage. However, by the end of the 1990s, each institution was calling for more open and participatory processes of economic policy-making in borrowing countries. This alters the bargaining power which accrued from the secrecy of negotiations.

Democratizing economic policy-making erodes the influence of the IMF and World Bank but this is not a bad thing—unless you believe that the Fund and Bank promulgate economic policies which are bound to have beneficial effects. In fact, controversy rages as to whether the prescriptions of the IMF or the World Bank improve the economic prospects of countries. Critics argue that they do not, at least in part because the Fund and Bank emphasize the wrong priorities and sequencing of economic measures. By contrast many staff within the organizations point to failure on the part of borrowing governments that lack the resolve to implement prescribed policies.

The evidence about IMF and World Bank impact is mixed. Each institution has undertaken rigorous studies. Up until 1990 the IMF had undertaken nearly a dozen internal analyses as to the effects of its structural adjustment programs. The results highlight possible successes but also instances where specific conditionality was probably wrong or based on underestimations, and overall there is little conclusive evidence of a net positive effect (Khan 1990; Boughton 2001, 614–29). Outside experts and critics have been more damning (Killick 1995, Cornia et al. 1987).

The World Bank's internal reviews are no less convincing. Lending is subject to an annual appraisal that judges the satisfactoriness of Bank programs and structural adjustment loans in terms of development outcomes, the impact on institutional development (improving a country's capacity to use its human and financial resources effectively), and the sustainability of the project over the longer term. The results from the late 1980s up to 1997 suggest that around one third,

sometimes more, of Bank-supported projects had unsatisfactory development outcomes, close to two-thirds of projects were judged not to have had a substantial impact on institutional development, and over a half were judged to have unsatisfactory or low sustainability. An internal Bank report in 1992 argued that a very low Bank failure rate could suggest that the Bank "was not taking risks in a high-risk business" (Portfolio Management Taskforce 1992, 3), indicating that the Bank would then be doing little more than unnecessarily lending where private sector lenders would lend. The Bank's own rewriting of conditionality since the early 1990s recognizes concerns about the content, appropriateness, and effects of World Bank conditionality.

There is no incontrovertible evidence that the IMF and World Bank know what is good for their borrowing countries. More important, there is even less evidence that what they know translates into what they require of governments. Overall, powerful states set the boundaries within which the IMF and World Bank work. Within those parameters, professional economists and staff draw up the details. They work with an eye on the political masters of the institutions and equally with a view to promulgating their own and their institution's interests. They express their solutions in the language of professional economists. Once solutions are defined, staff take their mission into the field. There they must coerce or persuade borrowing governments to undertake prescribed measures. Their influence in the short term depends on local conditions and whether politicians have an interest in using Fund or Bank resources or conditionality to bolster a particular position or policy. Longer term the influence of the institutions is affected by the perceived quality and economic impact of their advice. Each institution has evolved a particular knowledge and organizational structure to define and undertake their respective missions.

The Fund versus the Bank

Analyzing the World Bank and International Monetary Fund together is controversial. Staff members in each institution cannot bear for the Bretton Woods twins to be described in the same sentence of a book. Although separated by just a few meters of asphalt, the staff and management on either side of Nineteenth Street in Washington, D.C., never cease to remind outsiders of the tremendous cultural, organizational, and ideological gap between the institutions. Picture the underground tunnel that joins the two buildings, permitting staff to dash from one building to the other without having to negotiate traffic and rain. This walkway is aptly painted with a thin blue line—amusing because it echoes the use of a thin blue line by UN peacekeeping forces that bravely separate warring parties. Often the Fund and the Bank are engaged in a form of conflict with one another—a turf war that results when each institution vies for the lead role in promulgating a particular economic reform.

There *are* some significant differences between the institutions. The most obvious differences are in size and culture. The Fund is mostly housed in one build-

ing. With a staff of 2,650 (in 2002), the institution prides itself on being cohesive, consistent, and tightly disciplined. By contrast, the World Bank sprawls across several buildings in Washington and has decentralized some of its operations to the field. With a staff of more than ten thousand, the organization presents itself as open, multidisciplinary, innovative, and more in touch with the grassroots and people who drive development. These differences are widely felt by staff working within the organizations and by their interlocutors in borrowing countries. However, cutting across the differences in size and culture is the fact that the senior staff in both organizations share a very similar training.

At the top of both institutions senior managers are overwhelmingly trained at graduate level in economics or a closely related field in a North American or anglophone university. They work within a similar chain of command. Both agencies are strictly hierarchical, with junior staff reporting to senior managers and so forth up the chain of command. Only very rarely do senior staff across the Fund and Bank differ in their views about an approach to economic policy. Often where disagreements arise, they exist within each institution as well as across the street. When the Fund and Bank quarrel it tends to be more about turf than substance. Their disputes are usually about which institution should take the lead on which issue rather than about which policy should be supported.

A deeper difference between the institutions is that they were created with different roles. Established at the end of the Second World War, each institution was given a distinct mandate. The Fund was charged with ensuring a stable international monetary system that would foster equitable growth within and among its member countries. It was expected to undertake surveillance of all members' exchange rate policies and control a pot of resources from which it could lend directly to members encountering temporary balance of payments problems. By contrast, the World Bank was created to channel investment into projects within countries in need of reconstruction and development. The Bank would raise money in capital markets and lend it to members at market interest rates. It would evaluate the soundness of any project for which a member wanted to borrow, giving technical advice where necessary. Hence a natural division was established between the two institutions from the outset. That division has eroded sharply.

In the first place, the institutions have come to service the same pool of clients. The lion's share of their work is with developing, emerging, and transition economies, and they share the same objective in their work—to foster development in these countries. The IMF has lost most of its earlier role managing the exchange rate system, and the World Bank never became the central force for reconstruction in Western Europe after the war. Life rather quickly brought the two institutions into the same arena. They aggregate and analyze data from the same countries and undertake policy-relevant research into what would improve the economic performance of those countries.

In the second place, both institutions are primarily engaged in conditional lending. From its first operations the IMF required certain policy reforms from countries wishing to borrow from it. In formal terms, conditionality was held up as necessary to safeguard the short-term use of the institution's resources. The

World Bank began its operations making very similar requirements of its borrowers. As early as the 1940s it was stipulating overall policy commitments from borrowers as a precondition for a loan (see chapters 1 and 2). Furthermore, membership and the completion of negotiations with the IMF were preconditions for a World Bank loan. The debt crisis in the 1980s brought the two institutions yet more constantly into overlap as each focused intently on structural adjustment in debtor countries in order to safeguard its own lending and to promote an identical set of conditions defined as necessary for long-term growth.

In theory the institutions take charge of different areas of conditionality. A concordat established between them specifies that the Bank has "primary responsibility for the composition and appropriateness of development programs and project evaluation, including development priorities." The Fund has "primary responsibility for exchange rates and restrictive systems, for adjustment of temporary balance of payments disequilibria and for evaluating and assisting members to work out stabilization programs as a sound basis for economic advance" (Boughton 2001, 997, and excellent discussion in chapter 20). Yet in practice each institution finds it extremely difficult to stay out of the other's area of policy, as is evidenced by the periodic attempts to rewrite the concordat dividing responsibilities between the institutions and continual declarations of intent better to collaborate and cooperate with each another. In essence, both the IMF and the World Bank are engaged in leveraging loans to ensure a jointly defined project of policy reform in borrowing countries on top of which the World Bank undertakes project lending.

The overall structure of governance of each institution is very similar. Their respective Articles of Agreement place a Board of Governors comprising national policymakers at the top of hierarchy with the day-to-day work being undertaken by a Board of Executive Directors who live in Washington, D.C. Their senior managers have similar powers and duties. A constituency system is used for the representation of members, and voting power is allocated among members in virtually identical ways within each organization. The funding and resources of each organization are differently structured, but as is explored in chapter 2, the politics of increasing their funding has brought to bear very similar pressures.

All that said, the Fund and Bank interact very differently with the outside world. The Bank has become an extremely porous organization in which the voices of nongovernmental organizations and civil society reverberate loudly. One analyst describes the modern Bank as a Gulliver tied down by endless threads of socially active groups (Wade 2001). An Inspection Panel created in 1993 permits people affected by a Bank project to bring complaints directly to the Bank and to have the institution's adherence to its own rules and operating procedures scrutinized. This has made the Bank's operating procedures and guidelines more transparent. Equally powerfully, in the 1990s the Bank made public the shortcomings exposed in its own investigation into its loan portfolio effectiveness. The ensuing public debate about the Bank has expanded to engage virtually every aspect of the Bank's work and potential impact, including on the environment, gender relations, people with disabilities, and so forth. Meanwhile

the Fund has stayed relatively insulated, choosing its own pace and style for interacting with civil and not-so-civil society—"a tidy disciplinarian wanting to be respected but not loved," to quote its historian (Boughton 2001, 996).

For all their differences of style, in the twenty-first century Fund and Bank officials are engaged in four principal activities: research and its dissemination; policy conditionality and technical advice; emergency financing and crisis management; and longer-term debt relief and development financing. They share the challenge of working with a large number of very diverse countries, and yet at the same time each institution needs to demonstrate that it is treating all members fairly and equally and that its advice is consistent and coherent. The record of each institution in meeting these challenges provokes similar criticisms and responses.

Critics claim that the Bank and Fund have a record of unmitigated disaster. They argue that both institutions leave poverty and failure in their wake. Their incompetence, their subservience to the United States or to Wall Street, and their lack of accountability to other members has led them to throw good money after bad and to support bad causes and bad governments. Certainly evidence of failure may be found even in the Fund and Bank's own studies and evaluations. But "success" for these agencies is difficult to measure. They are public, universal agencies for a reason. Missing from the critics' view is the fact that the Fund and Bank exist in large part to go where angels fear to tread. Their task is to support countries, projects, and policies that may be risky, which take a long time and will not necessarily attract private sector loans. They are not private bankers or investors. They are public institutions with public purposes. If they enjoyed a 100 percent success rate and return on every loan, we would have to ask why public institutions were needed. That said, there is a serious gap between what the IMF and World Bank attempt to achieve and what their record shows they can deliver.

From Political Miracle to Vexed Institutions

The book begins by tracing the creation and evolution of the institutions. The historical record helps us critically evaluate the nature of the organizations. Emerging out of a process of postwar accommodation and cooperation and the searing experiences of the Great Depression and the Second World War, the IMF and World Bank promised a way to manage the world economy in a more rational and cooperative way. Their creation was described by one of their founders as a political miracle. Chapter one highlights several original features of the institutions, which made them relatively independent of their political creators. But the chapter subsequently reveals the way the United States and its changing vision of global order and justice has shaped their evolution.

Chapter 2 takes us further inside the walls of the agencies to examine how the Fund and Bank have each come to define its mission. In the 1980s they seemed to converge in the so-called Washington consensus. But why did this happen? The

chapter pits two competing views against each other. Economic theory as analyzed and perfected by the professional staff in each institution is one answer. But it is unpersuasive. Economic theories are usually subservient to the needs of the bureaucracy and the demands of the job, and the material interests of the most powerful members of each organization. Once we take these political pressures into account, we begin to see what blinkers and hobbles each agency, such as in the run-up to financial crises in Mexico at the end of 1994 and in South Korea in 1997.

The mission of the IMF and World Bank is not just to define economic programs. Each agency seeks to persuade borrowing countries to implement specific reforms. Chapter 3 explores how they might do this. Each institution deploys a mixture of technical advice and coercive power in bargaining with borrowing governments, lending or withholding resources, disbursing or suspending payments, and imposing various forms of conditions. Yet the institutions can successfully deploy this power only where they find and work with sympathetic interlocutors who are both willing and able to embrace the priorities preferred by the institutions. Willing policy-makers are produced by circumstances as well as ideology and training. Able policy-makers (who can deliver what they promise) are affected by the configuration of political institutions within which they work. Where economic policy is centralized and relatively insulated from other political pressures, the potential influence of technocrats and their advisers in the IMF and World Bank is high, particularly in bureaucracies with high turnover and adaptive capacity. Where legislatures, party politics, and electoral cycles have a strong influence, the results will be messier, more subject to veto players, and less easily influenced by the international financial institutions. This is best seen by tracing some specific cases.

Chapter 4 examines a case where the institutions seemed successfully to accomplish their mission. By the 1990s, Mexico seemed completely to have absorbed the ideas of the Fund and Bank. This chapter examines why. It also draws out what this case tells us about the conditions under which the Fund and Bank are more and less successful in selling their ideas. Resources and the power to leverage other investment into a country give the institutions coercive power. At the same time, the Fund and Bank had persuasive power based on their knowledge and status and the fact that they shared a mindset with specific local interlocutors. In Mexico both kinds of power came together to produce not just a change in policies but a subtle reconfiguration of the institutions of policy-making, which in turn deeply affected the implementation of reforms. However, once democratization began in earnest in Mexico, the power and scope of the technocrats with whom the IMF and World Bank had a special relationship declined sharply, as did the influence of the international financial institutions.

A very different case is that of Russia. The influence of the IMF and World Bank in the former Soviet Union in the 1990s was always more limited. Having leapt into helping to transform the Soviet economy, both the IMF and World Bank soon found that lending for macroeconomic stabilization and specific projects was futile in the absence of a much broader project of systemic transfor-

mation. The result was mission creep or an expansion of their operations beyond their formal remit. Adjustment conditionality was augmented with deep institutional reform and measures to strengthen and modernize state capacity. The IMF and World Bank were soon engaged in producing standards and benchmarks in areas such as the rule of law, anticorruption, popular participation in policy-making processes, social protection, and poverty alleviation. Staff in both institutions negotiated conditionality in areas in which they had no formal training or expertise. The impact on the Russian economy was seldom what the institutions intended. As chapter 5 details, the absence of prerequisite institutions combined with political, social, and economic forces to produce what the head of the IMF referred to as crony capitalism and a team of World Bank researchers described as state capture and corruption.

The experience of the IMF and the World Bank in Russia fostered an ongoing very public, rancorous debate about the institutions. Yet in many respects their mistakes in Russia were much less significant and damaging than those made in a different and much more vulnerable part of the world. Chapter 6 explores the involvement and adaptation of the institutions in sub-Saharan Africa. Some deep failures in countries in that region have led each institution profoundly to question the approach and priorities in dealing with the least-developed countries in the world economy. Within the Fund and Bank a new approach is now being fostered. However, the revised mission in Africa is challenging—not just to how the institutions do their business but equally to what the institutions are.

The conclusion outlines the case for rethinking the objectives, methods, structure, and governance of the IMF and World Bank. In the twenty-first century both institutions face demands to be more democratic and accountable. Their present structure reflects their historical origins as technical, sovereignty-respecting organizations. They were created to work among states not within them. Today they are more politically intrusive. Their roles take them deep into policy-making within countries, and most especially in the developing world. The mission of the Fund and Bank needs rethinking, as does the way they undertake it. In a world which puts a premium on democratic values of representation and accountability, the challenge explored in the final chapter is how new demands can be balanced within the older structures of power and influence.

A Few Choice Cases

In the contemporary study of international relations there has been surprisingly little attempt to examine power, decision-making, and bargaining within the international financial institutions, although an earlier wave of scholarship opened up precisely these questions (Knorr 1948, Kindleberger 1951, Matecki 1956, Cox and Jacobsen 1973, and for a useful survey, Martin and Simmons 1998). This book brings to bear theories that help to illuminate the way power and influence work within the international institutions and in their relations with countries attempting economic policy reforms.

Students of the institutions have generally assumed that U.S. influence is always dominant and focused on explaining the outcomes of U.S. strategic choices (Thacker 1999, Stone 2002). Others have examined the formal structure of principal-agent relations in which the United States participates within the institutions (Martin 2000, Gould 2004). What these analyses do not focus on is how each institution does what it does and with what consequences for people and politics in the countries it most affects

Power and influence are exercised both formally and informally in each institution. Some institutional constraints that shape the actions of the IMF and World Bank can be analyzed as formal systems of incentives (Vaubel 1986). Others are better construed as norms (Finnemore 1996). Building on previous analyses, this book argues that the work of the Fund and Bank is constrained by scarce resources, by the operational habits and norms, as well as by concrete incentives. The senior management and staff have an interest in ensuring that each institution maintains a key role in the global economy. This requires constantly taking on new roles. However, in the face of a new challenge, their response will be shaped by previously tried solutions and operating rules and procedures. The latter serve to protect each institution from external attack, as well as to ensure minimum standards of quality and coherence in the actions of staff and consultants. These institutional features powerfully channel the work of economists within each agency.

I began this book because I wanted better to understand how small or poor countries could best advance their case in dealings with international institutions which seem apparently to be run by very powerful states. That required dissecting the interplay of power, influence, and ideas in each institution and carefully tracing the politics of their interactions with borrowing countries.

In studying the institutions I have used three kinds of sources. The official documents of the institutions have been used wherever possible. For the contemporary period this has been made easier by the opening up of disclosure and archives policies in each institution. Previously, official documents had to be obtained either through member governments or through unofficial channels. Official documents often reveal very little about the politics of negotiations and the informal channels of influence that often shape decisions within the Fund and Bank and their impact on borrowing countries. For this reason a second vital source has been extensive interviewing and contact with officials in the IMF and the World Bank as well as with their interlocutors from countries including Mexico, Russia, Turkey, Venezuela, Peru, Jordan, Uganda, South Africa, Indonesia, Malaysia, Argentina, South Korea, Japan, the United Kingdom, the United States, Canada, and Italy.

A third source on the workings of the institutions themselves has been the rich secondary literature documenting and analyzing the history of the IMF and the World Bank. The early period of the institutions has been dissected and analyzed by a host of scholars in history, economics, and international relations (see chapter 2). Their institutional histories have been documented from within (and just outside) their own walls. There is a long tradition of excellent official and semi-

official histories of the IMF (Horsefield 1969, De Vries 1976, James 1996). These sources are bolstered by more recent contemporary accounts of specific crises (Blustein 2001). The latest official history by James Boughton is a remarkable feat of scholarship and good writing and an indispensable source. Likewise the World Bank is well served by detailed and revealing histories, including the frank and insightful early volume by Edward Mason and Robert Asher (1973) and the more recent compendious and richly detailed study coauthored and edited by Devesh Kapur, John Lewis, and Richard Webb (1997).

In studying the relationship of the IMF and the World Bank with borrowers I have focused on three areas of the world: Mexico, Russia, and sub-Saharan Africa. These areas were chosen because in Mexico the Fund and Bank claim to have played a major role in facilitating reform—they, ostensibly, had successful influence. In Russia the institutions are often cast as having had no impact in spite of their vigorous efforts. In Africa the institutions are widely criticized as having failed to catalyze economic growth and development or even to support the kinds of institutions that might lead to development—they are said to have had a negative influence. These different impacts make these areas significant for heuristic reasons. An exploration of each illustrates how the IMF and World Bank interact with and affect domestic processes of economic policymaking. They point to the conditions under which the international organizations have more or less impact on borrowers. They illuminate the political and institutional implications of reform. In each case a variety of sources is used.

In respect to Mexico the process of policy reform is studied from 1982 through to the present day and a separate case is presented on the December 1994 currency crisis. Several sources are used to reconstruct the process, politics, and mechanisms of influence, limits, and impact of the IMF and the World Bank. First, a rich literature on the politics of adjustment and economic policy reform not just in Mexico but throughout Latin America has been used. This includes studies written both inside and outside of Mexico in Spanish and in English. Second, official documents have been used, including government accounts and reports, and documents exchanged between Mexico and the IMF and the World Bank. Third, extensive interviews were undertaken throughout the period 1992–95 with key members of the Mexican government involved in the reforms as well as with Fund and Bank officials with whom they were negotiating and who were overseeing the process (see chapter 4). Finally, contemporary news sources were consulted in conjunction with interviews to assist in correcting for hindsight and post-facto justifications.

In respect to Russia the role of the IMF and the World Bank from 1990 through until the end of the 1990s is examined. As with Mexico, the sources used include a rich secondary literature on the process of transition in the former Soviet bloc, official documents, interviews with key players, and contemporary news sources. I traveled to Moscow in 1996 to conduct interviews for a documentary about economic reform in Russia. This permitted me to record interviews with a number of key politicians and advisers. In subsequent research I also benefited greatly from collaborations with Nigel Gould-Davies, whose fluency in

Russian and familiarity with Russian sources contributed enormously to our joint work on the IMF and economic reform within Russia, and with Russia analyst Alexander Zaslavsy.

In respect to sub-Saharan Africa I have relied heavily on the extensive secondary literature about individual countries as well as the region as a whole. Two strands of work have been particularly useful. The first is a strand of political science that has focused on the political economy of Africa, exploring the relationship between interest groups, governments, institutions, and policy-making across the different countries of the region. In this literature the Fund and Bank are hardly remarked on but the scholarship serves to provide a useful and rigorous framework for understanding the domestic sources of policy. The Fund and Bank are much more central in the vast and diverse scholarship in development economics addressing the causes and consequences of economic failure in Africa. This ranges from fairly orthodox economic analysis to more radical and eclectic approaches. Finally, I have also used the compendious range of documentation, research, and analysis kept within the IMF and World Bank on their members in sub-Saharan Africa. Overall I must underscore the extent to which I am deeply indebted to librarians, archivists, officials, and policymakers all over the world for their patience and forbearance in assisting me in this research.

Chapter 1

WHOSE INSTITUTIONS?

Within the IMF and World Bank several thousand economists do their best to collect, analyze, and interpret data in a professional way. Their training and qualifications in economics and finance are deemed essential to the task of advising, lending, and giving technical assistance to countries. The managers and staff in each organization take seriously their job of guiding and educating member governments in an impartial way, using their expertise to enhance the scope for every country to benefit from a more integrated world economy. Furthermore, each institution was created with a degree of independence from any form of political control or influence. So why have the IMF and World Bank long been depicted as a "US-serving control instrument over the economic and financial policies of other countries, especially the so-called under-developed countries" (Furtado 1959)?

It is easy to see the U.S. influence in the institutions. They were created within the United States mainly by that country and that is where they are headquartered. In general their policies have reflected U.S. economic and strategic interests, particularly in opening up markets in all parts of the world. Yet it would be wrong to assume that there is one set of U.S. interests shared by all parts of the U.S. government and translated into official policy, which in turn determines what the IMF and World Bank do in member countries. One can almost hear U.S. officials who have worked with the agencies crying "if only." More important, if we stop at the observation that in general the United States dominates the institutions, we write off the possibility that other countries or views might in some way influence the work of the IMF and World Bank.

This chapter examines the actual influence of the United States in creating the IMF and the World Bank and in shaping their subsequent evolution. Doubtless, the United States has had an enormous influence over both institutions. But as this chapter reveals, competing views within the United States are an important factor in understanding that influence. So too, as later chapters will elaborate,

competing ideas within other governments and within the institutions themselves affect what they do. In small but significant ways, within the political parameters set down by the United States, the IMF and World Bank are influenced by factors other than U.S. mercantilism.

U.S. Power and the Creation of the IMF and World Bank

Two serious problems faced policymakers in the last stages of the Second World War. First, Europe had been devastated by war and needed to be reconstructed. Second, the "beggar thy neighbor" economic policies of the interwar years had led to disastrous outcomes. Countries tried to devalue their way out of crisis, strangling production in other countries through cheap exports and trade protectionism. The result was catastrophic. The challenge for economic officials meeting at Bretton Woods in 1944 was to gain agreement among states about how to finance postwar reconstruction, stabilize exchange rates, foster trade, and prevent balance of payments crises from unraveling the system. This was expressed at the time by U.S. official Harry Dexter White:

> No matter how long the war lasts nor how it is won, we shall be faced with three inescapable problems: to prevent the disruption of foreign exchanges and the collapse of monetary and credit systems; to assure the restoration of growing trade; and to supply the huge volume of capital that will be needed virtually throughout the world for reconstruction, for relief, and for economic recovery. (IMF Records Office April 1942, cited in Mason and Asher 1973, 15)

Two rather different plans for the postwar economic institutions were tabled at Bretton Woods.[1] On the one hand, the British plan was for an agency to which states would clearly delegate monetary powers. It would be an automatic clearing union to which all countries would contribute and in which no currency had a special place. A new supranational unit of account would be created. Transfers to countries in deficit would be virtually automatic. No policy conditions would be attached. This would apportion burdens of adjustment equally on deficit and surplus countries (Keynes 1971–89, vol. 25; Block 1977; Van Dormael 1978).

By contrast the Americans planned an agency over which the United States would retain considerable control and from which it would derive considerable benefit. The new international institution would use the U.S. dollar and gold as its core unit of account. Transfers would be made among countries on a discretionary basis. Indeed, ultimately the institution would have the power to set down conditions for loans from the institution. Although formal authority would be

[1] As James (1996) notes, allied thinking about managing the world economy was greatly spurred by the German finance minister's publication in 1940 of an economic plan: Walther Funk, *The Economic Future of Europe* (Berlin, Tarramare Office, 1940).

delegated to the new institution, discretionary powers would permit the United States to influence exercises of that authority (Gardner 1969).

The two plans shared similar economic reasoning but differed along the lines of the political preferences and needs of their promulgators (Gardner 1980, Hirsch 1969, Boughton 2002). Britain was a debtor wanting to protect itself from the impact of U.S.-imposed trade liberalization and to place some costs on long-term surplus creditor states (James 1996, 39). The U.S. was determined to liberalize trade, thereby opening up the closed markets of European empires, to proscribe manipulated exchange rates, and to lay down conditions for U.S. investment in West European reconstruction (U.S. commentary in Horsefield 1969, 136). As a capital-exporter unlikely to need to borrow from the IMF, the United States was keen to lay down conditions on any country wishing to use the IMF (Dell 1981).

The United States prevailed on a number of issues at Bretton Woods. This was unsurprising. The United States was in a classic hegemonic position. It emerged from the Second World War with greater economic, political, industrial, and military strength than any other country. Its exports dominated world trade. Rudimentary national income accounting, which was just beginning at the time, highlighted the extraordinary fraction of global real income being earned by the United States. Furthermore, the timing of Bretton Woods minimized the input of other states. As one economic historian writes, "The United States required an international agreement and wished to secure it even while hostilities in Europe prevented enemy nations from taking part in negotiations and minimized the involvement of the allies on whose territory the war was fought" (Eichengreen 1989).

On one theory the United States was able to prevail because it alone among Western allies could propose and design new supranational institutions. Other weaker states in the system would "acquiesce because they know that the winners are in a position to proceed without them" (Gruber 2000). The choice faced by weaker states in this theory is a simple one: whether they want to be "in" or "out" of the new club. Their desire to keep the old regime becomes irrelevant since it is no longer available. For this reason even where cooperation is not in their interests, weaker states will bow to the agenda set by a hegemon, whose agenda is in turn shaped by domestic political calculations (Gruber 2000).

In reality, once the Bretton Woods regime was established, at some level it is true that all other states had the choice to opt into a powerful new economic bloc or to be excluded from it. At one point in negotiations, UK representative John Maynard Keynes wrote that the Americans "plainly intend to force their own conceptions through regardless of the rest of us. The result is that the institutions look like becoming American concerns, run by gigantic American staffs, with the rest of us very much on the side-lines" (Keynes 1971–89, vol. 26, 217). However, this statement does not capture Keynes' broader view, nor does it capture the way American policymakers themselves perceived their power.

In the above quotation, Keynes was commenting on news he had just received from U.S. Secretary of Treasury Vinson that the United States wanted to situate the IMF and World Bank in Washington D.C. Keynes was extremely vexed by

this decision and later wrote that it "appeared that it was primarily a personal decision of Mr Vinson supported only by the Federal Reserve Board (which would find itself strengthened against the New York Federal Reserve Bank by the Washington location), and not supported on its merits by the rest of the American Delegation" (Keynes 1971–89, vol. 26, 222). More generally, the private and public papers of Keynes highlight the opposite: that Keynes believed there was give and take on the U.S. side in negotiations on the structure and role of the IMF and the World Bank.

United States policymakers did not uniformly perceive their own position as all-powerful. Their papers and records show that they believed they had to negotiate and concede issues (Van Dormael 1978, Gardner 1969, Block 1977). For example, the United States proposed a scarce currency measure that could have forced it to take actions not in its interest when running a surplus (see article VII [3] of the Articles of Agreement of the IMF). In a memorandum written in February 1944 Keynes described this action as "a signal mark of their courage, of their fair-mindedness and of their sense of responsibility to the other nations of the world" (Keynes 1971–89, vol. 26, 402). More broadly the structure and scope of the institutions produced by the Bretton Woods negotiations reflect the U.S. desire to compromise and negotiate. As will be discussed below, in both the IMF and World Bank all member states have some voice, and as technical agencies the institutions possess a significant degree of autonomy from member states, including the United States.

The question posed is why the United States, faced with a number of self-interested options, agreed to the Bretton Woods proposals? The fact that the United States was in the position of a fairly unbridled self-interested hegemon does not help us to sort out what John Ikenberry documents as the "range of postwar orders that were surely compatible with an American interest in an open world economy" (Ikenberry 1992, 290; Kindleberger 1977). Indeed, the United States could easily have produced and promulgated a much more modest postwar pact that involved no international clearing union, no contributions by members, and no issue of new currencies. In other words no supranationalism and no delegation to international agencies. Such a plan was proposed by other countries at the time (James 1996, 43; and Horsefield 1969, 97–102). Yet in the final Bretton Woods agreements, the United States agreed to delegate a limited degree of authority to the IMF and World Bank.

For institutionalist theorists delegation to new institutions should be expected. States construct and shape institutions to advance their own goals (Keohane 1984; Koremenos, Lipson, and Snidal 2001a and 2001b), but these goals are defined in an enlightened way. A hegemon will agree to some constraints because international institutions enlarge its choices and the possibilities for mutual advantage among states (Haggard and Simmons 1987). For this reason cooperation results in delegation to multilateral institutions that can prescribe, proscribe, or authorize behavior even of the hegemon. In negotiations creating such institutions even the most powerful states will cede some ground in order to ensure the participation of other states. These realities will be traceable in the design of

the institutions, their voting and decision-making structures, their financial arrangements, and their degree of discretion in the exercise of their functions.

But not all features of institutional design are due to concessions to other states. Liberal theorists focus instead on domestic political constraints faced by states creating institutions (Moravcsik 1998). In this respect, the go-it-alone theory discussed above is a liberal one. It proposes that a powerful state will delegate power to international organizations as a response to domestic political exigencies. In essence, U.S. negotiators would use their go-it-alone power to create institutions the design of which would reflect their need to ensure domestic approval and lock in a particular set of preferences. Certainly there were domestic advantages for the U.S. Treasury and State Department in creating the IMF and World Bank—to some degree in so doing they could wrest control from other agencies over international issues, or as Keynes wrote during the negotiations, they could use the Fund and the Bank to "pass on their impending headaches to be treated by the new institutions" (Keynes 1971–89, vol. 26, 229). However, the liberal explanation is not without problems.

More generally the liberal argument would be that the U.S. Treasury needed to ensure a regime that would bind or persuade *domestic* detractors and successors, present and future, including the U.S. Congress. Here the evidence is not so clear. As historians Mason and Asher document, when the Articles of Agreement for the Fund and Bank came before the U.S. Congress for ratification, the Congress tried to make it clear that any loans "for programs of economic reconstruction and the reconstruction of monetary systems, including long-term stabilization loans" should be made by the Bank and not the Fund (Mason and Asher 1973, 25). Yet this was not what U.S. negotiators pushed for, and the Bretton Woods negotiations produced an IMF that would come to make stabilization loans and a Bank initially empowered to make such loans only as an exception.

The U.S. Congress was yet more concerned to ensure that the executive directors of each institution would not be international civil servants but would be answerable to their own governments (Mason and Asher 1973, 34). Yet this argument had already been made by the founders of the institutions for other reasons (Keynes 1971–89, vol. 26). Furthermore, in both institutions the final result was a Board of Executive Directors who would have dual roles as international civil servants, paid by the Fund or Bank and working for the organizations, as well as being answerable representatives of their own governments.

Neither institutionalists nor liberal theorists explain why such an innovative, multilateral plan emerged at Bretton Woods. Several more modest kinds of international arrangements would have fulfilled the modestly enlightened interests of key states. Yet something more daring emerged from a debate between British and American officials. As Keynes declared in 1944: "The proposals go far beyond what, even a short time ago, anyone could have conceived of as a possible basis of general international agreement" (Keynes 1971–89, vol. 26, 15). The "political miracle" that occurred at Bretton Woods requires more explanation (Gardner 1985). Without new ideas from both the United States and the United Kingdom—ideas, principles, and beliefs about what was possible, legitimate, and

might be effective—the creation of supranational economic institutions in 1944 would never have been on the agenda.

Certainly, policymakers drew on existing precedents. The proposed World Bank built on an existing private sector experience of bond markets. The proposed IMF built on a history of cooperation among central bankers to maintain the gold standard prior to its collapse, with banks giving temporary, conditional loans to each other to prevent devaluations. Previously, some cooperation had occurred under the auspices of the Bank for International Settlements (BIS), established in 1930 to foster international monetary and financial cooperation and to act as a bank for central banks. Other cooperation had been led by private sector actors (Bordo and Schwartz 1998, Eichengreen 1996, Schloss 1958). During the interwar period, the League of Nations had coordinated emergency balance of payments loans with funds provided by private bankers, again with conditionality attached (Pauly 1997, Gisselquist 1981, Clarke 1967). However, at Bretton Woods policymakers sought to go further. Keynes himself noted that if all went well the IMF would "furnish a truly international body for consultation and cooperation on monetary and financial problems which would serve the purpose which some had hoped, but had been disappointed, from the BIS" (Keynes 1971–89, vol. 26, 221).

In the event, forty-five countries agreed to create two new supranational institutions. The International Monetary Fund and the International Bank for Reconstruction and Development would "facilitate the expansion and balanced growth of international trade" and "facilitate the investment of capital for productive purposes" (see article I, respectively, of IMF and IBRD Articles of Agreement). The IMF would be guardian of a new system of international monetary cooperation, underpinned by stable exchange rates and a multilateral system of payments. The IBRD would facilitate international investment so as to raise "productivity, the standard of living, and conditions of labour" in all member countries, as well as assisting in a smooth transition from a wartime to a peacetime world economy (WB Art 1).

These institutions were dreamt up by economists on either side of the Atlantic. Representing the United Kingdom was the famous economist already cited above, John Maynard Keynes, who had been at the Paris Peace Conference of 1919 and written eloquently about its failures (Keynes 1920). The bold economic theories of Keynes influenced not only the Bretton Woods conference but several decades of economic policy thereafter. The input of Keynes and the British into the Bretton Woods settlement has been traced carefully by historians of the time (Boughton 2002, Gardner 1969, Van Dormael 1978, Eichengreen 1989, Ikenberry 1992).

The United States was mainly represented by Harry Dexter White who shared Keynes's belief that governments could and should foster growth in times of stagnation, indeed he had watched approvingly as Roosevelt implemented such policies in the New Deal. In the late stages of the Second World War, White began to project this view into a new vision of international economic management (James 1996, 39). Initially the World Bank was central to this vision, a new agency that

would create credit to ensure reconstruction and growth in an impoverished world economy. In an excellent historical analysis of White's position and the politics of the Bretton Woods negotiations, James Boughton concludes that White's personal convictions were vital in framing U.S. preferences and support for creating multilateral institutions in the face of isolationist and hegemonic interests expressed in the U.S. Congress (Boughton 2002, 20).

Underpinning the positions promulgated by White and by Keynes were domestic debates about how to structure the postwar world economy (Ikenberry 1992, Block 1977). Different agencies and actors in each country pressed for different kinds of settlements. It was neither clear nor obvious which position would prevail. In the United Kingdom there were shifting divisions on trade and whether or not the imperial preference system should give way to a free trade regime.

In the United States, as historians of the period have carefully documented, the State Department led by Secretary Cordell Hull was fixated on ensuring free trade and free capital movements in a multilateral system (Penrose 1953, Pollard 1985, Gardner 1964). Meanwhile, U.S. economic planners and New Dealers wanted no international diversion from their primary goal of fostering full employment and social welfare within the borders of the United States (Block 1977, Gardner 1980) Furthermore, "lurking behind American wartime debates was a domestically minded and tightfisted Congress" (Ikenberry 1992, 305).

The resolution of different plans and goals in the United States and the United Kingdom was not the simple product of power politics or functional exigencies. The design of the new institutions was equally shaped by the new ideas on the table. But this requires further explanation, for ideas do not triumph and shape negotiations purely by dint of their rationality or technical or moral value (Woods 1995, Keck and Sikkink 1998). Rather, a particular set of ideas prevailed because of their resonance among key participating governments and within the societies over whom they governed.

The focus on a new kind of international monetary arrangement at Bretton Woods neatly sidestepped the intransigent coalitions that had formed to champion various trade arrangements. For free traders, the new arrangements were an indirect way to ensure the expansion of world trade. For internationalists, the institutions were at least a step in the direction of global engagement. As Fred Block puts it, the Bretton Woods institutions offered idealistic internationalists a way to institutionalize U.S. commitment to the world economy. Ironically in so doing these left-wing idealists created institutions that strengthened the hand of their domestic economic policy opponents—the so-called "business internationalists" (Block 1977, 37).

The specific elements of the framework agreed at Bretton Woods embodied variants of all contending groups' beliefs (Ikenberry 1992, 317). In this way it bridged the gap between the U.S. State Department and U.S. Treasury (Block 1977). Ideologically, for Keynesians the new regime transposed Keynesianism to the world economy, paving the way to multilateral government intervention to foster growth, employment, and equity. The innovative postwar settlement also represented a set of ideas and solutions that resonated within societies. War-

weary populations not only needed new investment and economic growth, they also needed a new vision of international economic relations and management (Ruggie 1982, Hall 1989). This social need helps to explain the rapid public acceptance of the Bretton Woods plan. Indeed, in his study of four news publications in the United Kingdom and United States, Ikenberry has noted how quickly public opinion swung around to a consensual acceptance of the new institutions (Ikenberry 1992).

In summary, the Bretton Woods settlement reflects more than a compromise between the national interests of a very powerful United States and a less powerful United Kingdom. The negotiations embodied large-scale new ideas about international economic governance, which were perceived as necessary and attractive not just by individual statesmen but by the war-weary public they were serving. American negotiators doubtless had more power to wield than their colleagues from other nations. The remainder of this chapter examines to what extent that power was wielded so as to ensure that the United States retained authority over the institutions through voting rights, funding, and control over mandates.

Independence in the Original Design

The original governance structure of the IMF and the World Bank was unlike other institutions set up in the 1940s. The voting structures in both institutions were deliberately unequal or "weighted." Each member was apportioned a quota. The quota translated a country's economic weight and significance in the world economy into a share of contributions and votes (and in the IMF, access to resources). This made the United States the largest initial contributor and gave it the largest individual share of votes.

The man charged with calculating the first allocation of quotas in 1943 has described how he was told by the U.S. secretary of the treasury to "give the United States a quota of approximately $2.9 billion; the United Kingdom (including its colonies), about half the U.S. quota; the Soviet Union an amount just under that of the United Kingdom; and China somewhat less. White's major concern was that our military allies (President Roosevelt's Big Four) should have the largest quotas, with a ranking on which the President and the Secretary of State had agreed" (Mikesell 1994).

Later in 1944, Keynes reported that the United States had made it clear that whatever the formula used for IMF quotas: (1) the aggregate must not exceed $8 billion (2) the Russians must have 10 percent (3) the Chinese must come fourth in aggregate amount (4) the aggregate voting power of the British Commonwealth must not exceed that of the United States (Keynes 1971–89, vol. 26, 69). These requirements reflect the extent to which U.S. political "bottom lines" would shape the institutions.

That said, the voting structure of the Fund and Bank also involved an equalizing principle. Basic votes were allocated to enshrine a principle of equality

among member states. These votes were allocated to all states regardless of size or contribution. The historical record shows that U.S. negotiators believed they had to compromise to meet some of the aspirations of other states and that such compromises were vital if the organizations were to be effective. For example, although Harry Dexter White originally proposed that the United States take 61 percent of quota, he modified this to less than 30 percent and concurred in the allocation of basic votes, expressing his rationale in the following terms:

> To accord voting power strictly proportionate to the value of the subscription would give the one or two powers control over the Fund. To do that would destroy the truly international character of the Fund, and seriously jeopardize its success. Indeed it is very doubtful if many countries would be willing to participate in an international organization with wide powers if one or two countries were able to control its policies. (cited in Gold 1972, 19)

The historical context helps to explain this reasoning. In 1944 a concept of equality among states was coming to prominence (Broms 1959). Indeed it would be enshrined in 1945 in the universal membership and voting of the United Nations General Assembly. In the IMF and World Bank it was recognized in an allocation of "basic votes." As Joseph Gold explains:

> The authors of the plans for the Fund and the negotiators felt that the bold step of weighting the voting power of members in a major international organization according to quotas, which in the main reflected economic and financial factors, should be combined with the political consideration of the traditional equality of states in international law. The basic votes were to serve the function of recognizing the doctrine of the equality of states. (Gold 1972, 18)

In a similar spirit, in 1955, when the quotas of small developing countries looked too small the Fund decided to double their quotas and to set up a minimum quota—dubbed the "small quota policy" (Gold 1972, Lister 1984). These measures ensured that smaller, weaker states had a share of votes that exceeded their economic weight and gave some indication of their status as members of a community of states.

Voting power was not the only element of institutional design that would determine U.S. influence over the institutions. Yet more important was the financial structure created for each organization. Other agencies created at the end of the Second World War were designed dependent on regular subscriptions or levies from member states. Hence in the United States payments to the United Nations and its agencies would have to meet with regular congressional approval. This process has given the United States considerable political influence over these organizations (Righter 1995, Rivlin 1996). However, the original financial structures of the IMF and the World Bank made them relatively immune from pressures exerted in the process of maintaining regular funding.

From the start the IMF was funded by members' subscriptions of capital,

which formed the IMF's core assets. As is still the case, each member country holds a portion of its quota in the Fund in "reserve assets," meaning gold or U.S. dollars. Naturally this confers an advantage on the United States as core currency, an advantage gained late in the negotiations at Bretton Woods when by "sleight of hand" an amendment ditched the principle of equality of all currencies in favor of the dollar (James 1996, 50). Furthermore since 1968 the United States and all other creditors have been remunerated for providing this credit (Boughton 2001, chap. 17, 53). The key point here however is that quota holdings established core assets that would automatically be kept at the IMF, meaning that the institution would not need to supplicate members for contributions.

The World Bank (IBRD) was founded with four sources of funds: paid-in capital, retained earnings, repayment of loans, and borrowing on the world capital markets. Members contributed capital stock proportionate to their quotas. A small portion is actually paid-in capital subscription, which comprises a very small proportion of the Bank's funds. The other portion may be called in only to meet the obligations of the Bank in extremis. The result is a set of guarantees provided by member states that permit the Bank to raise money in financial markets by selling AAA-rated bonds and other debt securities to pension funds, insurance companies, corporations, other banks, and individuals around the world.

In essence, the Bank borrows from the markets at the lowest market rates, benefiting from the credit ratings of its rich shareholders. It then lends the funds to developing countries at higher rates, which generates net income and covers the institution's administrative and lending costs. From the outset the Bank has not been limited by a hard budget constraint. It sets its own lending rates and, as a result of the income it generates, compared to other public agencies it has always been able to "employ more staff at higher average salaries, hire more consultants, commission more country studies, hold more seminars, issue more publications, and provide its functionaries better creature comforts" (Kapur et al. 1997, 1165).

Neither the IMF nor the World Bank would have to court and await the approval of governments, parliaments, or the U.S. Congress for its operating budgets. Once created, both agencies were relatively free of influence exercised through their finances by their largest contributors. Indeed the United States was turned down when it proposed in 1947 that the Bank lend exclusively to Western Europe for reconstruction, in exchange for a larger U.S. contribution. The proposal was rejected at least in part for fear that this would turn the institution into an American rather than a multilateral organization (Kapur et al. 1997, 76). Nonetheless, time and expansion would later erode some of the financial autonomy of the IMF and World Bank.

The autonomy of the World Bank and IMF has been affected not just by their voting structures and finances but also by their mandate and the degree of discretion granted to their expert staff. This is very clear from the original and subsequent debates about conditionality in and among the member states of each institution.

Regarding the World Bank, the original debate focused on whether the new Bank would be able to lend for "programs and projects" as the United States pro-

posed or simply for "specific projects" as the British urged (Mason and Asher 1973, 24). Harry Dexter White argued for the United States that the Bank would have wider discretion if it could lend more broadly and insisted on inserting a provision for more general loans under "special circumstances" (Baum and Tolbert 1985, citing White's congressional testimony). The end result was that the institution's loans and guarantees shall "except in special circumstances, be for the purpose of specific projects of reconstruction or development" (article III, section 4 [vii]). In the early years of the Bank the focus on projects proved useful. It helped to reassure lenders in New York. It ensured Bank loans had a finite quality to them. It permitted the Bank to avoid political and sovereignty issues. Perhaps most significantly, it required the Bank to build up technical expertise and a staff who could undertake high-quality project work (Kapur et al. 1997, 8). Still, it bears noting that the Bank's first four loans went to Western European countries to finance imports that in no sense could be considered project oriented (Mason and Asher 1973, 2).

The debate at Bretton Woods about the IMF centered on conditionality. Keynes had originally proposed a scheme in which an international credit union would oversee transactions that were automatic. The new regime would be rule-based and would not require the supervision of a large trained and expert staff. This was true delegation as institutionalists would describe it. By contrast, the United States advocated an institution with wide discretion and what Keynes referred to as "grandmotherly" control over member countries (Dell 1981). In the discretionary regime, the IMF would be able to impose conditions on any borrower so as to increase the probability of swift repayment. Keynes feared that this would give the United States too much control over the use of the Fund's resources.

In the end American negotiators insisted that the new institution have control over the use of its resources. Key agencies within the United States believed that Keynes's idea of automaticity had to be vanquished. Yet the United States was unable to persuade other states to accept an explicit statement about conditionality. The result was ambiguity in the Articles of Agreement of the IMF. However, as historian Harold James found in the archives of the Federal Reserve and the National Advisory Council on International Monetary and Financial Problems, U.S. agencies were convinced that automaticity had been defeated (James 1996, 56). Soon after the Bretton Woods agreements were signed on 10 June 1944 the U.S. Treasury issued "Questions and Answers on the International Monetary Fund." Although this was not an internationally agreed document, it was soon treated as a source of authoritative interpretation (Horsefield 1969). By the 1950s the United States had succeeded in enshrining conditionality in the heart of the IMF's lending, even though the articles were not formally amended until 1969 (De Vries 1976, 1:256–57). Within the World Bank conditionality, albeit of a de facto kind, was also introduced at a very early stage (Baldwin 1965; Kapur et al. 1997, 81).

The outcome in respect of conditionality produced a regime in which a highly trained and expert staff in the IMF would supervise the use of resources by mem-

ber countries, proposing to the board that conditions be applied to loans so as to ensure that Fund resources were swiftly repaid. In the World Bank, project lending would require technical expertise, and the institution's soft budget constraint meant that it could hire the best and build up status and a reputation for high-quality project work. The Bank's lending structure meant that "extra vetting, extra analysis, and extra technical assistance" could be conducted and the cost simply added into the body of a government's borrowing and covered by markup pricing (Kapur et al. 1997, 1163).

In both the IMF and the World Bank, technocrats would guide the lending discretion imbued in the institutions. Lending proposals in each organization would be prepared by the staff in negotiation with the prospective borrower. From the outset this meant that the Fund needed to develop and transmit knowledge about macroeconomic policy, and the World Bank needed to do the same in respect of project lending. Each institution had an important role as developer and transmitter of expertise. The staff and management of the institutions would play a vital role in this.

The staff in the Bank and Fund, unlike the staff of UN agencies, would not be hired according to country quotas. Rather, the managing director of the IMF and the president of the World Bank would appoint staff in order to secure "the highest standards of efficiency and of technical competence" paying "due regard to the importance of recruiting personnel on as wide a geographical basis as possible" (IMF, art. XII; WB art. 5). This expert staff would be immune from political influence, owing their duty entirely to the institution and to no other authority. Every member government would refrain from all attempts to influence the staff in the discharge of these functions (IMF Article XII, section 4; World Bank Art V, section 5).

The head of each organization would oversee the staff. He or she would be formally appointed by the Executive Board. Informally, however, it was agreed that the World Bank president would be from the United States and the managing director of the IMF would not be. For this reason the top post of the IMF has always been held by a European with the United States getting to select the first deputy managing director (Kapur 2000, Kahler 2001).

Overall the institutions were formally expected to work with countries regardless of political calculations and without taking politics into account. The Articles of Agreement of the Bank explicitly state:

> The Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially in order to achieve the purposes stated in Article I.[2]

[2] Article IV, section 5. It is worth bearing in mind that to some degree policy conditionality has always been part of the Bank's work (Baldwin 1965).

In the IMF there is no such explicit injunction, although the Articles of Agreement provide that in "surveillance" the Fund must "respect the domestic social and political policies of members" (art. IV, sect. 3).

In summary, the original design of the IMF and the World Bank did not give the United States control over the institutions even though it used its dominant position to shape them. The voting structure enshrined a basic principle of equality and reflected economic and geostrategic power. The financial structure of each institution gave it relative autonomy from its members. The discretion accorded to each institution in respect of lending conditionality certainly gave the United States a measure of influence but it also cast a large role for an expert staff of technocrats to advise the board in each institution as to how to use this discretion and as to what conditions to impose.

The Purse Strings Are Pulled

Since their original creation, both the IMF and the World Bank have become more beholden to their most powerful member states and more susceptible to direct U.S. influence. The system of basic votes that initially provided a modicum of restraint on their weighted voting structures was soon diluted. By the end of the twentieth century basic votes that had once constituted more than 10 percent of total votes had dropped to represent less than 3 percent of the total votes in each institution. Weighted voting took over.

Adding to the power of large vote-holders is their capacity to veto. This arises in respect of decisions requiring a special majority of 70 or 85 percent of votes. Holding 17 percent of votes, the United States alone can block any board decision requiring 85 percent. It is the only member with an individual capacity to do this. Other countries and groups of countries could join together to do the same even though they tend not to in practice. For example, Germany, the United Kingdom, and France hold 15.89 percent of votes and together could effect a veto. However most other countries are grouped within constituencies whose voting power cannot be split. For this reason, developing countries as a group cannot in practice vote together in the Executive Boards of the Fund and Bank because they are spread across over a dozen constituencies some of which are represented by the European country within the group (Rustomjee 2005). Likewise the countries of the European Union cannot vote as a group, although some have proposed that the IMF should be organized so that they could (Mahieu, Ooms, and Rottier 2003).

The significance of a veto power has increased over time as the number of decisions requiring a special majority has increased. Originally very few decisions required a special majority. However, the United States has compensated for a declining overall voting power—from 33 percent to 17 percent—by expanding the requirement for special majorities from an original nine categories of decision to some sixty-four (Gold 1977, Lister 1984).

Even more than voting power, a significant erosion of the original indepen-

dence of the IMF and the World Bank has taken place as their need for funds has increased and new mandates and facilities have been added.

The World Bank's Expansion and IDA

In the period 1968–81 under the presidency of Robert McNamara the World Bank discovered to what degree it could expand. In the latter four years of the McNamara presidency, lending expanded more than threefold in real terms, the professional staff of the organization rose fourfold, and the administrative budget increased 3.5 times in real terms (Kapur et al. 1997, 16). In part this expansion was funded by new money raised in private markets with successful bond offerings being made in Canada, Switzerland, the United Kingdom, Germany, the Netherlands, Belgium, Italy, and Sweden (Kopper 1997). In part, the expansion was also facilitated by the use of a relatively new arm of the Bank called the International Development Association (IDA).

The International Development Association was opened in 1960 to give loans at highly concessional rates to poorer developing countries. These loans are made from a special fund donated by governments whose agreement is required for periodic replenishments. As a result, the IDA has opened up a new channel through which the Bank can be directly influenced by its wealthier government members, and in particular the United States.

Initially the largest contributor to the IDA was the United States but this has changed over time. The largest contributor to the IDA through 2005 was Japan, which contributed 22.07 percent of IDA's resources, with the United States in second place at 21.74 percent, followed by Germany (11.84 percent), the United Kingdom (8.08 percent) and France (7.23 percent) (IDA 2005). On the basis of these figures, one would expect to find significant donor leverage over the organization. However, none has been so effective as that of the United States. In 1967 the United States agreed to an increase in replenishment for the IDA, providing its increased contribution was tied to procurement to relieve the U.S. balance of payments difficulties—a demand that led to the creation of the IDA deputies who would make decisions on how the Fund was used (IDA 2001, 3). In subsequent replenishments the United States altered the rules on funding and on burden-sharing in the IDA (IDA 2001).

Furthermore, U.S. influence exerted through IDA replenishment negotiations has gone further than the institution. Even though the IDA itself accounts for only about 25 percent of IBRD/IDA total lending, there have been several instances where the United States has used threats to reduce or withhold contributions to the IDA in order to demand changes in policy, not just in the IDA but in the World Bank as a whole. For instance, during the late 1970s the Bank was forced to promise not to lend to Vietnam in order to prevent the defeat of that round of the IDA budget (called IDA 6 in World Bank jargon). In 1993, under pressure from Congress, the United States linked the creation of an Independent Inspection Panel in the World Bank to its contribution to IDA 10. As one writer

put it: "With the Congress standing behind or reaching around it, the American administration was disposed to make its catalogue of demands not only insistent but comprehensive on replenishment occasions" (Gwin 1997, 1150). This was played out again in 1999 when both houses of the U.S. Congress passed bills reducing the U.S. contribution to IDA 12, citing not just their own budgetary pressures but the World Bank's decision to continue working on a loan to China even after the United States had voiced disagreement with the project (Wade 2001).

Further strengthening U.S. leverage in IDA replenishment negotiations has been a condition that was applied during negotiations in 1977: that all other members could reduce their own contributions pro rata by any shortfall in U.S. contributions (see IDA 1998, 29). Although this pro-rata provision ensures an evenly shared burden across contributors, nevertheless it also magnifies the impact of any U.S. threat to diminish its contribution: for if the United States does so, all other contributors can follow suit.

Finally, the World Bank group has also become more porous to political pressures through an increase in the use of trust funds. In order to increase their capacity to lend, the Bank has steadily increased its use of cofinancing and trust funds. By the financial year 1999, these arrangements had come to amount to nearly half of World Bank disbursements, reflecting a 17 percent increase in trust fund disbursements.

Both trust funds and other forms of cofinancing give a much more direct control over the use of resources to donors whose Trust Fund Administration Agreement with the Bank governs how the funds are used (See "Operational Policies," World Bank, *The World Bank Operational Manual* at www.worldbank.org). It bears noting, however, that this does not mean that Trust Funds have become a conduit of exclusively U.S. influence. Indeed, the U.S. contribution in 1999 was less than those of the Netherlands and Japan, and it was not initially a contributor to the HIPC Trust Fund—the Bank's largest—which means initially it did not exercise direct influence over that fund. Overall, however, the growth of trust funds and cofinancing arrangements signals an increase in bilateral and selectively multilateral control over Bank lending and a decline in straightforward delegation to the Bank.

The IMF's Expansion

In the IMF political influence by the United States has been greatly enhanced by the process of increasing the institution's resources. At least every five years the quotas determining contributions to the Fund are reviewed (see table 1.1 below, which summarizes the increases). Any increase in quota requires a special majority (85 percent) of votes on the Executive Board and hence the United States has an individual power to veto such decisions. Furthermore, within the United States an increase in resources allocated to the IMF requires congressional approval. For this reason, at each quota review the Fund is subjected to particular scrutiny by U.S. political actors and pressure from them. In the 1990s this trans-

TABLE 1.1
Increases in the IMF quotas

Date	Increase in quotas (%)
February and April 1959 (Special Review)	60.7
1965 (Fourth General Review)	30.7
1970 (Fifth General Review)	35.4
1976 (Sixth General Review)	33.6
1978 (Seventh General Review)	50.9
1983 (Eighth General Review)	47.5
1990 (Ninth General Review)	50.0
Tenth General Review	No increased proposed
1998 (Eleventh General Review)	45.0
2003 (Twelth General Review)	No increase proposed

lated into attempts by Congress to influence Fund conditionality over issues such as worker rights, the role of the private sector, human rights, and military spending with significant successes (Geithner 1998).

In the second half of the 1990s, negotiations took place in preparation for the 45 percent increase in quota agreed by the Fund's Executive Board in September 1997. The U.S. Congress approved the increase only on the condition that an International Financial Institution Advisory Commission be created to recommend future U.S. policy toward the IMF as well as the World Bank and other multilateral economic organizations. In November 1998, the so-called Meltzer Commission was established and reported to Congress in early 2000.

The report of the commission established by the U.S. Congress took a different line from the U.S. Treasury on many issues. Indeed, it launched several attacks on the U.S. Treasury and its policy toward the IMF: accusing Treasury of "circumventing the Congressional budget process" by using the Exchange Stabilization Fund to assist Mexico in 1995; of "commandeering international resources to meet objectives of the U.S. government or its Treasury Department"; and of leading the initiative to create contingency credit lines in the IMF that were "so poorly designed that, to date, no country has applied." In the first two of these criticisms, the Treasury is being accused of laying claim to U.S. policy in exactly the way Keynes suggested in 1946, vesting authority in the IMF so as to wrest control over economic policy away from Congress and other agencies.

In its attacks on the U.S. Treasury, the commission's report highlights differences of view and different bases of power that exist within the U.S. government. It is not obvious that such differences diminish U.S. influence by making its objectives less clear or more diffuse. Indeed, a recalcitrant Congress may even enhance and magnify U.S. influence in two ways. First, it has created a separate and additional channel of communication with the Fund and the Bank: indeed, one of the first acts of the new managing director of the IMF appointed in 2000 was to meet with the head of the Meltzer Commission to discuss the recommendations that had been made in the latter's final report. Second, the fact that everyone is aware that a feisty U.S. Congress needs to be brought on board can give

the U.S. Treasury and its officials within the IMF extra leverage and a credible threat to hold over other shareholders and Fund officials.

Although the main source of financing of the IMF is through quotas, the institutions' resources have been increased by other means. In the 1960s the Fund needed access to more resources because of a weakening in the U.S. position (De Vries 1976, 376) and a growing need to offset international capital movements (Gold 1977, 25). If quotas had been increased at the time, both Germany and France would have increased the size of their quotas (Gisselquist 1981). Instead in 1962 the IMF established the General Arrangements to Borrow (GAB). Under the GAB the institution could borrow up to SDR 6 billion from ten industrialized countries (and as of 1964 from Switzerland) to help finance drawings from GAB creditors.[3] In 1977, for example, it was used, along with a bilateral borrowing from Switzerland, to finance standby arrangements for Italy and the United Kingdom (De Vries 1985, 192–93).

In 1983 the GAB was reviewed and extended. The Latin American debt crisis had strained the Fund's resources and under the revised arrangement the institution could borrow up to SDR 17 billion plus an additional SDR 1.5 billion under an associated arrangement with Saudi Arabia. These resources would now be used to lend to nonparticipants in the GAB—as indeed they were in July 1998 when the GAB was activated for the tenth time in its existence to finance an Extended Arrangement for Russia (see chapter 5). At the same time the New Arrangements to Borrow (NAB) were put in place after the Mexican financial crisis in 1994 in order to double the credit available to the IMF under the GAB. The NAB would henceforth be the first recourse for the Fund when it needed additional resources. Credit could be provided by some twenty-five members and institutions participating in the NAB. The new arrangements have been invoked just once to finance a standby arrangement for Brazil in December 1998

Scholars differ in their view of the impact of the GAB. Robert Solomon argues that in the 1962 agreement European negotiators took the opportunity to express their newfound power relative to the United States, insisting on procedures under which they as lenders would have the chance to make decisions (Solomon 1977, 43). However, the GAB also gave the United States a chance to increase the resources of the IMF without increasing the quotas of its allies Germany and France. Moreover, as Eric Helleiner argues, the GAB met the needs of a larger U.S. and UK agenda to create the necessary conditions for freer capital movements. The GAB-resourced IMF would be in a position to offset increasing capital movements as financial actors in London and New York and major multinationals began to compensate for the restraints of national capital controls by increasing their participation in international capital markets (Helleiner 1994, 96).

A clearer sense of the rise of other major creditors in the IMF is to be found in the financing of the institution's activities in the 1970s and early 1980s. Dur-

[3] SDR stands for "special drawing right." It is an international reserve asset created by the IMF in 1969 whose value is determined by the market exchange rates of the euro, the yen, UK pounds, and U.S. dollars.

ing this period both Saudi Arabia and Japan greatly enhanced their formal position. Saudi Arabia became the largest lender to the IMF after contributing the lion's share of resources for a special IMF lending program (oil facility) created in 1973–74, a second oil facility, and then a supplementary financing facility created at the end of the 1970s (Boughton 2001, 885, 889). These contributions made Saudi Arabia one of the largest two creditors in the Fund, thereby permitting the country to appoint its own executive director to the IMF rather than remain in a constituency with other countries. Eventually after long negotiations with the institution, the country's quota was also radically increased to reflect its status as the largest lender to the Fund (Boughton 2001, 890). Japan, which also became a major creditor of the IMF also eventually increased its quota after a long and bitter struggle to do so (Ogata 1989, Rapkin and Strand 1996). Although both Japan and Saudi Arabia shifted up the ranks in terms of their quota size and formal voting power, there is very little evidence that either country has used that formal power to push a particular agenda or to limit or constrain other members of the IMF. Japan's leadership on reviewing the Fund Board's policy for appointing the managing director in 2000 surprised many and did not lead to any substantive change in the status quo. More influentially, Japan pushed in the 1990s in the World Bank for a study of the reasons for growth in East Asia, facilitating a controversial debate on the same (Wade 1996). Yet these are exceptions to a general picture of members deferring to the United States.

In summary, although autonomy was built into the original financial structure of the IMF and the World Bank, both have become more porous to U.S. influence as they have expanded. In particular since the 1980s every increase in IMF quotas or replenishment of the Bank's IDA has been accompanied by negotiations with a U.S. Congress using the opportunity to threaten to reduce or withhold the funds, being yet more prepared than even the executive agencies—Treasury and State Department—to set down special preconditions for U.S. contributions. As a result, in the IMF and the World Bank other shareholders and officials within the institutions have grown used to placating not just the powerful departments of State and Treasury, but also a demanding U.S. Congress.

Missing from the story of political encroachment thus far have been the other large shareholders such as Japan and the European countries, particularly Germany, France, and the United Kingdom, each of whom has its own representative on the boards of each institution. Occasionally these members have pushed a particular issue, and these instances show that several other industrialized countries do have a significant voice in each institution, and certainly a larger voice than all other non–U.S. members. Examples include not only Japan's championing of the East Asian Miracle study within the World Bank but also the push by France, Japan, and the UK's push for debt relief for the poorest countries. These examples, however, do not diminish the pattern of overall U.S. dominance.

Particularly puzzling is why European countries, especially since monetary integration, have not pooled their voting power or coordinated their positions more systematically to increase their voice. One reason mitigating against European collective action is the fact that most European countries are spread across dif-

ferent seats and constituencies (Bini Smaghi 2004). Another reason is that they have found themselves on different sides of key debates. For example, when the United Kingdom and France helped lead a new debt relief initiative in 1996–97, Germany sided more with the United States than with its European partners (see chapter 6).

The Pressures of the Cold War and Beyond

Soon after the IMF and World Bank were created, U.S. priorities changed. Institutionalists may well have expected the existence of the new institutions to have constrained or locked-in U.S. preferences (Morrow 1994). In the short run this did not occur. By 1945 Britain was no longer a partner in creating the postwar regime but a supplicant seeking loans from the United States. At the same time the Cold War was beginning (Yergin 1978). The United States shifted its focus to geopolitical rather than economic security. The Anglo-American Loan Agreement of 1946 and the Marshall Plan of 1947 sidelined the IMF and World Bank. The U.S. dollar rather than gold took center place in the international monetary system. The United States argued to "postpone the Fund until more favorable conditions have been developed for its operation" (Williams 1947, 257). The World Bank was sidelined as the agency of reconstruction in Western Europe. The Marshall Plan was used to rapidly build up that region's economies and strengthen political alliances with the United States (Milward 1984).

Where the World Bank was used, its work became inextricably linked to the geopolitical imperatives of the Cold War. In 1948 when Yugoslavia broke from the Soviet bloc, the World Bank stepped in with loans. This fulfilled the advice of George Kennan, the architect of the U.S. containment strategy that the West should offer the country "discreet and unostentatious support" (Kapur et al. 1997, 103). In Nicaragua, the World Bank supported the Somoza regime with a disproportionate number of loans while that country offered the United States a convenient base for prosecuting the Cold War in Central America. This included the training and launching of the 1953 overthrow of Guatemalan president Jacobo Arbenz, who was seen as a Communist sympathizer. It also included the 1961 Bay of Pigs invasion of Cuba (Lake 1989).

In the Middle East, Iran was heavily supported while it offered an important way to contain Soviet-sympathizing Iraq. Indeed in the period 1957–74 Bank lending to Iran amounted to $1.2 billion in thirty-three loans (Kapur et al. 1997, 500). In Indonesia after General Suharto assumed power in March 1966, the Bank immediately began a very close and special relationship with the country. The very substantial levels of corruption, the regime's human rights record, and its failure to meet World Bank conditions regarding the state oil company Pertamina were all overlooked. Rather more important in explaining the Bank's relationship with Indonesia was the backdrop of U.S. strategic concerns about Southeast Asia and communist insurgency (Green 1990). In this case, as in so many others, loans were used to support and win allies in the Cold War against the USSR.

In fact, U.S. administrations were required by law to ensure that any assistance to which they contributed met U.S. geopolitical needs. The U.S. position on the uses of foreign assistance was clearly spelled out in the Mutual Security Act of 1951 (U.S. Statutes at Large, no. 373, tit. 5, sec. 511[b]): "No economic or technical assistance shall be supplied to any other nation unless the President finds that the supplying of such assistance will strengthen the security of the United States." This philosophy (opposed at the time by many NGOs in the United States: see Ruttan 1996, 67) shaped U.S. bilateral programs, including the Economic Support Fund, the Military Assistance Program, the Development Assistance Program, and the Food for Peace Program (or PL 480) (Ruttan 1996). It also shaped U.S. preferences and policies toward the World Bank and the IMF.

The new, more political calculus ran directly counter to the original design of the World Bank, whose Articles of Agreement explicitly state that "the Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially in order to achieve the purposes stated in Article I" (art. IV, sect. 5). Yet, as we will see below, economic and technocratic considerations were not and could not be written out of the institution's work.

The IMF was less centrally involved in the Cold War until the late 1970s. Indeed, in 1961 the *Economist* described the managing director of the IMF as "Mr Krushchev's secret weapon" on the grounds that the IMF's stabilization programs under the new Polak model (discussed in greater detail in chapter 2) were so harsh that they risked creating social eruption (James 1996, 142). More seriously, the main clients of the Fund up until the end of the 1960s were industrialized country members: an analysis of countries drawing funds from the IMF 1966–71 reveals that the largest users of Fund resources ($8 billion of $11.7 billion) were eight industrial members (the United Kingdom, United States, France, West Germany, Canada, Belgium, Italy, Denmark) most of whom stayed within their gold tranche and therefore were not subject to conditionality (with the exception of standby arrangements for the United Kingdom and France) (De Vries 1976, vol. 1, 311).

In the later years of the Cold War the IMF's work became much more entwined in the security priorities of the United States. Indeed, one scholar models the loans of the IMF as a direct reflection of U.S. preferences, asking which set of U.S. preferences determined their loans (Thacker 1999). Strom Thacker's simple macroeconomic model tests two hypotheses about IMF lending to developing countries between 1985 and 1994. The first hypothesis is that IMF loans are used to reward friends of the United States; this is labeled the "political proximity" hypothesis. The second hypothesis is that loans are used to reward friendly overtures toward the United States and are withheld in order to punish unfriendly behavior; this is called the "political movement" hypothesis. A third hypothesis is mentioned but a priori rejected. This hypothesis is that specific economic interests drive U.S. policy, as argued by modern political economy or neo-Marxian

scholars. Measures of U.S. exports and foreign investment are used to test this view, but Thacker rejects it summarily, although accepting that a subtler model specification and further research would be needed to untangle the cross-cutting nature and impact of these interests (Thacker 1999, 58).

What kinds of results emerge from such a statistical testing of U.S. influence? Thacker's results suggest that during the Cold War his "political movement" hypothesis had the strongest support. In other words, realignment toward the United States improved a country's chances of receiving a loan from the IMF regardless of that country's starting position. Statistically this proved stronger in the tests than the simpler "political proximity" hypothesis, at least until the end of the Cold War (1985–89). This is interesting because it counters our expectation that being an ally of the United States would lead directly to more access to IMF loans.

Since the end of the Cold War, however, Thacker argues that his results support the idea that both proximity to the United States and overtures toward the United States have strongly influenced IMF lending. Thacker interprets this finding as evidence that the United States is using IMF loans in "playing the realignment game as vigorously as ever and is rewarding the allegiance of those who stay close without necessarily moving any closer" (Thacker 1999, 64).

The study is thought-provoking, but two limitations in respect of our purposes must be noted. By assuming that the United States speaks with one voice and controls the IMF, the model does not set out to investigate the multiplicity of voices within the United States and the limits of that country's influence. It ignores the role played by other members of the organization and the staff and management, which varies case to case. As this book will describe, the senior staff and Executive Board are always aware of the preferences of the largest shareholder with interests in a particular loan or country. However, this does not translate directly into the United States either calling all the shots or not, or having loans reflecting U.S. priorities or not. In cases where the United States has no particular interest at stake, other countries play an influential role. Where no large shareholder has particular interests, or indeed they are deadlocked, the staff and management are highly influential.

The other problem with testing U.S. influence is that U.S. preferences are not always clear or obvious. Within the model described above, U.S. interests and preferences are assumed to be revealed by key votes in the UN General Assembly. Thacker admits that these are not an ideal measure of political motivation. Indeed, key votes in the General Assembly are used for a variety of diplomatic effects, which do not necessarily match the preferences pursued (usually by the U.S. Treasury) in the IMF. In Thacker's study General Assembly votes are used to distinguish "political proximity" from "overtures to the United States." For example, IMF loans to Hungary, Yugoslavia, and Romania are all presented as reflecting moves by these countries toward the United States in the 1980s, while the lack of loans to Czechoslovakia and Poland reflects the opposite. This reasoning does not bear up under close scrutiny. Certainly Poland reflected a politically charged decision within the IMF. However, to say that Romania was

moving towards the United States in the 1980s is contentious, and in respect of Czechoslovakia the argument is not valid. Czechoslovakia was not a member of the IMF and therefore ineligible for any kind of loan regardless of political circumstances.[4]

Using a larger data set and a wider measure of U.S. preferences, Edwards (2003) makes the following findings, which add to the picture of where and how U.S. influence affects outcomes. First, there is only very limited, weak evidence that states adopting UN voting positions close to that of the United States are under Fund programs longer. Once other measurements of U.S. preferences are included, being a U.S. ally does not increase the duration of a state's stay under an IMF program. To quote Edwards, "There is no indication that US influence gives states in this sample beneficial treatment from the IMF" (Edwards 2003, 20). Nonetheless, other evidence shows that U.S. influences affect the punishment interval of countries that breach their commitments under IMF programs (Stone 2002). Edwards also finds no significant difference between U.S. allies and adversaries in terms of their performance or their propensity to cheat on their programs. Finally, what Edwards does find in terms of political influence is that states with higher voting power in the IMF seem to be permitted to run consistently higher deficits (Edwards 2003).

The findings from correlations between U.S. preferences and IMF lending patterns suggest that U.S. influence is significant in the institution but that it is difficult precisely to track. One important factor behind these studies is the question of how clear U.S. preferences are and what happens when there is no clear unitary set of U.S. geostrategic priorities that might define the work of the IMF and World Bank.

The Limits of Geopolitics

Bureaucrats and politicians within the United States do not always share the same view of what U.S. policy toward a particular country should be. Furthermore, even if they share the same goals, they will not always share or even have a view as to which instruments would best achieve those goals. India and its relations with the United States, the IMF, and the World Bank in the 1960s and 1970s offers an intriguing example.

By the early 1960s India was by far the largest borrower from the World Bank, having borrowed a total of US$2.55 billion by 1971, which was more than the next two largest borrowers (Pakistan and Mexico) combined (Mason and Asher 1973, 195). Similarly in the period 1966–71 India was the largest developing country user of IMF resources, ahead (in order of borrowed amounts) of South Africa, Colombia, Chile, Yugoslavia, Turkey, Indonesia, Philippines, Peru, Ceylon, and Egypt (De Vries 1976, vol. 1, 330–32).

[4] I am very grateful to James Boughton for sharing these insights with me. His own history of the Fund offers a rich historical analysis of these examples (Boughton 2001). The cited point is also made by Kapur 2002, 340.

India's geostrategic relationship with the United States during the 1960s and early 1970s was an ambiguous one. In 1964, the U.S. Congress had failed to approve aid for a public sector steel plant at Bokaro and Indian prime minister Nehru turned to the Soviet Union for support instead. The following year, the United States had suspended its aid to both India and Pakistan when the two countries went to war. Further to these tensions, India was consistent and vocal in its opposition to the U.S. engagement in Vietnam. In 1971 the United States suspended aid to India in the wake of the Bangladesh crisis, supported Pakistan, and sailed the U.S. aircraft carrier *Enterprise* into the Bay of Bengal. India's then prime minister Mrs. Gandhi concluded a treaty of mutual defense and support with the Soviet Union leading to a sharp cutoff in U.S. flows of aid to India.

Throughout the tumultuous geostrategic relationship of the 1960s, U.S. aid to India continued. United States policy reflected a number of competing priorities and lobbies within the United States. American officials had become deeply involved in trying to influence agricultural reform in India. These efforts involved the budget bureau in the Executive Office of the president as well as the National Security Council. As John Lewis has detailed, the U.S. aid community placed a high priority on India, devoting considerable resources and personnel to it, including not just the government but powerful private players such as Ford and Rockefeller foundations. Together with other departments and groups, the U.S. Agency for International Development (USAID) constituted a very strong India lobby within Washington, D.C., which favored a generous aid program backed by quiet negotiations. Countering this view in the mid 1960s was President Johnson and a Congress that was becoming increasingly disenchanted with foreign aid. They favored using threats of aid suspension to motivate greater reform efforts on the part of Indian policymakers (Lewis 1997, 94–99)

The multiplicity of voices in the United States created a space for alternative policies in the international financial institutions. This meant that U.S. preferences did not always converge with World Bank actions. For example, at the time of the breakdown in U.S.-India relations in 1971, the World Bank put together an ambitious proposal for further debt relief for India, requiring the approval of all donors who comprised the U.S.-led Aid India Consortium. The result was a clash between the World Bank and the United States, which reduced but did not succeed in preventing a more modest one-year agreement for $100 million debt relief. Probing beyond this outcome, an examination of the figures on India's sources of external assistance over this period reveals that while the United States dropped its assistance from $2.1 billion (1966–69) to $1.5 billion (1969–74), the World Bank (IBRD and IDA assistance taken together) increased its assistance from $593 million (1966–69) to just under $1 billion (1969–74) (Veit 1976). In essence, the World Bank was countervailing U.S. reductions in assistance to India.

The explanation given by scholars who have examined the history of loans to India is that the Bank's lending reflected concerns of the U.S. aid community (Ruttan 1996). Highlighted is the multifaceted nature of U.S. policy. On India there were several competing voices within Washington, D.C., including the White House, the budget bureau of the Executive Office, the National Security Council, USAID, the State Department, and the Department of Agriculture (Lewis

1997). An in-depth study of the U.S. politics of aid to India documents that in the spring of 1966 the departments of State and Agriculture were pushing for more food aid with less conditionality for India (Paarlberg 1985, 144–57). Taking the opposite view was the White House and a very hands-on president determined to keep India on a short leash, particularly in light of India's criticisms of U.S. policy on Vietnam (Varshney 1989, 313). What the U.S. executive seemed not to understand was that the more strongly they pushed the Indian government to submit on economic policy, the more the Indian government had to prove that it was not kowtowing to the United States—principally through ever stronger criticism of the United States in Vietnam (Paarlberg 1985).

The United States is the largest shareholder and the home base of the IMF and World Bank. It enjoys a high degree of influence over both institutions, which it has maintained even as its relative contributions to the institutions have decreased. Yet the U.S. government, riven with competing foreign policy cliques, does not control all that the institutions do.

In the 1940s ideas, beliefs, and values played a critical role in creating the institutions. A bold new vision of international cooperation displaced an alternative, less formal, decentralized form of coordination that could have met U.S. interests. In the design and governance of the institutions a modest equalizing principle was enshrined and a degree of independence was conferred on the institutions, belying the view that the most powerful state at the time would simply create a structure maximizing its own control.

Through time the relative independence of the IMF and the World Bank has been eroded. The Cold War added political imperatives to the preferences of their major shareholders, as did the end of the Cold War and the desire to ensure a particular kind of transition in the former Soviet bloc. Furthermore, as each institution has expanded, it has become more reliant on direct U.S. approval for some portion of its resources. This has given the United States more influence within each institution. However, this does not mean that the United States dictates all policies of the institutions.

U.S. preferences are not always clear cut. Nor are the means to achieve them. As this chapter has illustrated, there can be competing voices and lobbies within the United States about a country and how it should be treated by the multilateral organizations. This opens up a space for the institutions to provide alternative technical ideas and financing plans for a member country, and to broaden the debate about the goals of their policies within that country. Furthermore, as I will explore in the next two chapters, even where the preferences of the most powerful shareholder in the IMF and World Bank are clear, those goals still need to be translated into policies that are in turn implemented and enforced by other governments.

Put simply, U.S. geostrategic motives and pressures have defined the parameters within which the IMF and World Bank work. But translating those preferences into policy requires ideas about ends and means, and instruments and institutions to implement them. Here the IMF and World Bank play a crucial role, not entirely controlled by the Unites States, which we will now explore.