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THE GLOBALIZERS

The IMF, the World Bank, and Their Borrowers

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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 proposed 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 different 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.

Chapter 2

THE GLOBALIZING MISSION

When the Bank and Fund were created, there was no existing history or economic theory that would assist in defining to whom they should lend or under what conditions. Nor did their charters assist in answering how they might practically achieve the broad objectives set for them. Each institution would have to define its tasks and tools. Although from the start political influence was rife within each institution, national interests could not determine operational decisions. Why? Because as Krasner has so aptly put it, life at the Pareto frontier presents several alternatives (Krasner 1991). Even where a powerful state's objectives are clear, the choice of how to achieve those objectives is often unclear.

The IMF has to interpret the "adequate safeguards" provision—so brutally fought for in the Bretton Woods negotiations. What conditions should be imposed on borrowers to safeguard the institution's resources? In the World Bank, staff members decide which projects best foster development and what constitutes an appropriate program to support with loans. Economists offer competing answers to these questions. So what determines the result? In essence economic theories and politics collide and merge in the work of the IMF and World Bank. New ideas, debates, and theories certainly seep into each agency—especially when political and bureaucratic incentives are aligned. If a powerful shareholder does not back an idea or policy it is highly unlikely that it will be (at least openly) pursued. Equally vital are the incentives staff face to adopt new ideas. In the World Bank, for example, ideas that open up new lending possibilities will best fit with the "disbursement culture" that has long rewarded staff for how much they lend rather than the quality of those loans (Portfolio Management Task Force 1992).

This chapter burrows into the economics behind the IMF and World Bank, exposing how technical ideas are shaped by political and bureaucratic imperatives, starting with the first efforts of the Fund and Bank to implement their mandates.