24. The politics of the International Monetary Fund

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1. INTRODUCTION

International organizations are often portrayed as opaque institutions where important decisions are made behind closed doors. The International Monetary Fund (IMF) – arguably the most important intergovernmental organization in global economic governance (Babb and Kentikelenis, 2018) – is no exception. Even so, observers can occasionally glimpse the vigorous politics underpinning its governance and operations. In July 2019, IMF Managing Director Christine Lagarde resigned to become President of the European Central Bank, sparking a flurry of negotiations over who would succeed her. Since the establishment of the Fund in 1944, a "gentleman's agreement" ensured that the IMF has been led by a European (and the World Bank by a US citizen). In August that year, over 100 civil society organizations, trade unions, and academics signed an open letter urging the IMF to abolish this arrangement and instead pursue "a genuinely open, democratic, merit-based, transparent process" (Bretton Woods Project, 2019) – a call echoed by former IMF staff (Allen et al., 2019). In fact, the Independent Evaluation Office of the IMF had already suggested reform of the selection process more than a decade earlier (IEO, 2008, 2018). But the Fund was insusceptible to such criticism. Two weeks after Lagarde's resignation, prospective candidates hitherto were all from advanced European economies, including the former Dutch finance minister Jeroen Dijsselbloem and Finnish central banker Olli Rehn. Acknowledging a lackluster enthusiasm for these individuals in the US and other member states (who would still need to vote), the IMF Executive Board – akin to a board of directors – reformed its selection process by lifting the age restriction to facilitate the selection of a more credible candidate: Kristalina Georgieva, a Bulgarian national and chief executive of the World Bank, who ultimately became the sole nominee for the position and Lagarde's successor (Shalal and Tsolova, 2019). In stark contrast to the "open, merit-based, and transparent process for the selection of the next Managing Director" advertised by the IMF in July (IMF, 2019), European shareholders (with tacit backing from the US) ensured that the gentleman's agreement lived on. This anecdote demonstrates how powerful states achieve their preferences despite widespread criticism from staff, academics, and the public. To what extent is this case representative of IMF governance and decision-making more broadly? And what are the consequences for international development?

In this chapter, we set out to answer these questions by reviewing relevant scholarship and policy output. In section 2, we discuss the evolution of IMF operations since its establishment. Then, we introduce a framework to examine how states and non-state actors from politics, private finance, and civil society influence the IMF. In section 4, we investigate the practice of decision-making, considering the role of management and bureaucrats, as well as their internal and external pressures. We review the consequences of the Fund's policy advice with regard to their expressed goal of growth, the wider economic impact, and social consequences in section 5. In section 6, we discuss the implications for the politics of international development. In the concluding section, we contextualize the findings and discuss avenues for future research. Rather than living up to its promises of a-political, technocratic decision-making, this chapter demonstrates how the IMF is very much subject to political influence. Powerful states, particularly the US and advanced European countries, shape its policy priorities and – by extension – the structure of global economic governance.

2. A BRIEF HISTORY OF THE IMF

The IMF was established at the Bretton Woods Conference in 1944 – alongside the International Bank for Reconstruction and Development (later simply known as the World Bank) – to regulate the international financial system. Over the course of its 75-year history, the IMF has reinvented itself to adapt to new global circumstances on several occasions (Babb and Kentikelenis, 2018; Fioretos and Heldt, 2019; Reinhart and Trebesch, 2016). The IMF founding members tasked the organization with overseeing the Bretton Woods system of pegged exchange rates and addressing balance-of-payments crises. The need for international cooperation in this arena arose because in the pre-war period countries were devaluing their currencies so that their goods were relatively cheaper to foreign buyers. But this practice also raised the costs of imports and debt denominated in foreign currencies, causing an imbalance of the pegged exchange rates. This could yield a balance-of-payments crisis if central banks did not have sufficient foreign exchange reserves to service their obligations and maintain the fixed exchange rate. To encourage abstention from these policies, the IMF would make its financial resources "temporarily available to them [members] under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity" (IMF, 2016, p. 2). However, countries began moving towards floating exchange rates following the US suspension of dollar convertibility into gold in 1971, effectively terminating the system of pegged exchange rates. As a result, the first component of the IMF's operations became redundant.

The IMF continues to support its member states in preventing and addressing balance-of-payments crises. Initially, the Fund provided financial support without any conditions attached – consistent with the view of John Maynard Keynes, representing the British government at Bretton Woods. By contrast, the other chief architect of the Fund, Harry Dexter White of the US Treasury Department, pushed – ultimately successfully – to mandate the implementation of policy reforms in return for financial assistance, a practice known as conditionality (Babb and Carruthers, 2008). Although the original mandate did not mention conditionality, within two decades of its existence, the IMF began to lend money to Latin American economies conditional on implementation of policy reforms (Babb and Carruthers, 2008). The purpose of these conditions is to avert moral hazard – the risk that countries adopt unsustainable policies in anticipation of the IMF acting as lender of last resort.

Particularly since the 1980s, the Fund's activities – and the scope of conditionality – have expanded in manifold ways. The US Administration has been the leading force behind the diffusion of the so-called Washington Consensus – reforms targeting the liberalization, deregulation, and privatization of the economy (Kentikelenis and Babb, 2019). The policy reforms prescribed in lending programs now range from quantitative criteria on foreign debt to wage and employment limits, and from external sector measures to conditions pertaining to social and health spending (Kentikelenis et al., 2016).

While it continues to be associated with the Washington Consensus, the IMF has – in official communication and policy advice spread through surveillance programs – taken a sharp turn recently. For example, the organization began focusing on the negative economic consequences of excessive inequality (e.g., IMF, 2017a; Mariotti et al., 2017; Ortiz and Cummins, 2019), although this rhetorical shift has not been accompanied by a substantive reorientation of its policy advice (Forster et al., 2019; Mariotti et al., 2017; Nunn and White, 2016; Ortiz and Cummins, 2019). Additionally, the IMF has acknowledged the benefits of capital controls to manage the risks of capital flows under certain circumstances (Ghosh and Qureshi, 2016; IMF, 2012b), and was indeed more supportive of capital flow management measures in the aftermath of the recent financial crisis (Gallagher and Tian, 2017).

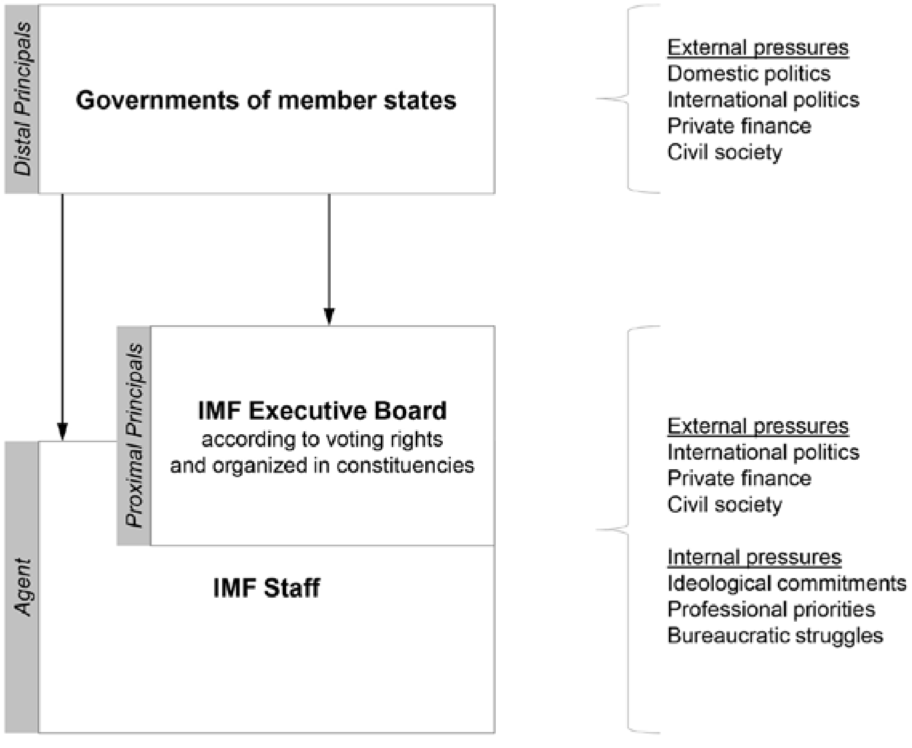
3. WHO GOVERNS THE IMF?

To examine the politics of the IMF, we draw on two distinct literatures in international political economy – delegation theories and sociological organization studies. Each emphasizes different actors, aspects of governance (i.e., the formal *process* of making legitimate decisions), and decision-making. Delegation theories employ the principal-agent framework to conceptualize international organizations (Hawkins et al., 2006). Accordingly, states act as principals that delegate authority to an organization's management and staff to fulfill their mandate. Under conditions favorable to the principal – e.g., effective control mechanisms and small information asymmetries – organizations develop norms and policies consistent with the interests of the most powerful member states. By contrast, organization studies emphasize organizational culture and the multiple identities of individuals in explaining decision-making of international organizations (e.g., Barnett and Finnemore, 2004; Kentikelenis and Seabrooke, 2017; Momani, 2005). Our framework – presented in Figure 24.1 – distinguishes between these two aspects. In this section, we discuss how governments of member states and their representatives, as well as non-state actors, govern the IMF. In section 4, we examine the inner workings of the organization, focusing on IMF staff and their influence on decision-making.

3.1 The Influence of States

In setting up intergovernmental organizations, the governments of states – as shareholders and principals – formally delegate authority to these institutions to enforce the commitments of states (Hawkins et al., 2006). As explained above, the IMF is an organization established to enforce commitments to international monetary cooperation and – as the agent – reports to the principals. When governments of member states do not directly supervise the activities of the organization (but send representatives to governing bodies instead) – as is common in many intergovernmental organizations – the chain of delegation includes both distal and proximal principals.

In the IMF, the highest decision-making authority is the Board of Governors, composed of Ministers of Finance or Central Bank Governors from all member states. However, the Governors only meet once or twice a year and delegate extensive decision-making authorities



Source: Authors.

Figure 24.1 The politics of the IMF

over day-to-day operations to the Executive Board. The governments of member states are therefore distal principals (i.e., relatively further removed from the agent), and their delegates in the Executive Board are proximal principals. The Executive Board meets two to three times per week, and is composed of 24 Directors representing the member states, the Managing Director who chairs meetings, and key representatives from IMF staff and other international organizations. The eight largest shareholders – the US (16.51 percent of the votes in 2020), Japan (6.15 percent), China (6.08 percent), Germany (5.32 percent), France (4.03 percent), the UK (4.03 percent), Russia (2.59 percent), and Saudi Arabia (2.01 percent) – elect their own representative, whereas the other countries form constituencies. The most important decisions, such as changes to the mandate, require a super-majority of 85 percent, thus giving the US veto power.

The "unrepresentativeness" of the IMF and its resistance to reforms that would grant more voice to developing countries is regularly the subject of debate (Stiglitz, 2002; Vestergaard and Wade, 2015). Country voting shares (as well as financial commitments to the Fund and access limits to its financial support) are calculated using a range of weighted economic indicators, including GDP at market exchange rates and purchasing power parity, the level of official reserves, economic openness, and vulnerability to balance-of-payments shocks (IMF, 2012a). Nonetheless, the distribution of voting shares and power among the Fund's principals is also a deeply political issue. For instance, Switzerland (Vreeland, 2011) and Australia (Lawrimore and Vreeland, 2018) rewarded countries that elected them to the Executive Boards of the IMF (and World Bank) with considerably higher aid than other developing countries. The case of Russia is also informative. After the demise of the Soviet Union, Russia applied to join the IMF. Acknowledging Russia's status in world politics and recognizing an opportunity to "universalize the institution" in terms of its membership, powerful Western states secured special treatment – despite resistance from smaller constituencies. In fact, IMF staff was tasked with finding a quota share that would justify Russian prestige – overrepresented in economic terms and able to elect its own Director – at the Executive Board (Momani, 2007).

Consistent with the view that voting shares are indicative of bargaining power, the most powerful member states tend to achieve their preferences in the Fund. As discussed in section 2, the expansion of the scope of conditionality to include measures of deregulation, liberalization, and privatization in the 1980s is inconsistent with the founding treaty. Yet, at no point did shareholders formally renegotiate the Fund's mandate. Instead, this reform originated in the US Treasury's 1985 announcement of the Baker Plan (Kentikelenis and Babb, 2019, pp. 1735–1738). The plan gave the IMF a central role in overseeing structural adjustment policies to unleash the market forces in the name of economic growth. Over subsequent years, US representatives – on behalf of their government – strategically employed different tools to legitimize this decision both in the IMF and other international venues.

Further, allies of the US, Germany, Japan, France, and the UK receive favorable treatment in terms of lending programs – e.g., higher loan amounts and less stringent conditionality when they borrow from the Fund (e.g., Copelovitch, 2010; Dreher and Jensen, 2007; Lipscy and Lee, 2019; Vreeland, 2019). Countries politically aligned with the Fund's major shareholders are also more likely to receive improved ratings in debt sustainability analyses (Lang and Presbitero, 2018) or favorable inflation forecasts (Dreher et al., 2008). Many of the Fund's important policy changes – e.g., concerning debt relief or reforms to its lending facilities – were initiated by a coalition of powerful states (Hibben, 2015).

Beyond the formal governance structure of the IMF, powerful shareholders can also secure deals behind the scenes, using informal channels of influence. The US can credibly achieve its preferences in global economic governance outside the arena of the IMF, and can leverage this opportunity to affect the Fund's operations (Stone, 2011). For instance, Russia was of critical importance to the American regional security strategy under President Clinton after the end of the Cold War. As a result, the US pushed the IMF to continue lending to Russia in the mid-1990s, even though the former Soviet Union repeatedly failed to implement the policy reforms mandated in their lending programs (which would normally interrupt disbursement of loan tranches) (Stone, 2011, pp. 197–200). In addition, the French and British Directors tend to disproportionately intervene on behalf of their former colonies (Stone, 2008).

At the same time, the influence of powerful shareholders is constrained by other proximal principals alongside IMF management and staff. Shareholders from low-income countries can block institutional change (or propose their own reforms) by building coalitions (Hibben, 2015). For example, the Fund's Articles of Agreement explicitly permit controls that restrict capital flows between countries. Starting in the mid-1980s, however, IMF staff initiated discussions to extend the Fund's mandate in matters of capital accounts, including the removal of capital controls as a means to regulate financial flows. In 1990, for example, a staff report put forward an unequivocal view: "[C]apital controls were ineffectual, counterproductive, and props for misguided economic policies. Their removal would only spur benefits" (Kentikelenis and Seabrooke, 2017, p. 1079). At the time, many high-income countries sided with staff. By contrast, representatives from the developing world remained unconvinced. They questioned the economic rationale of removing capital controls, citing a lack of applicability of the staff's research to the developing world. Ultimately, these Directors successfully opposed the emergence of this policy norm despite their inferior material resources (Kentikelenis and Seabrooke, 2017), thereby illustrating how smaller constituencies can effect change through skillful argumentation (IEO, 2018, pp. 18–19) and by undermining the legitimacy of proposed reforms (Park and Vetterlein, 2010).

3.2 The Influence of Non-State Actors

As a state-centric approach, most applications of the principal-agent framework take state preferences as given. However, the governments of member states and their delegates face external pressures from political actors, private interests, and civil society – all of which shape the preferences they pursue in intergovernmental organizations.

First, governments of member states respond to their electorate, which shapes their interaction with international organizations, including the IMF. For example, throughout the Fund's history, US Congress has taken votes on any proposed modification of IMF financing (Broz, 2011); by blocking proposed reforms, it can influence the actions of their proximal principal. From the perspective of member states that participate in lending arrangements, domestic political institutions affect program design. IMF staff recognize that democratic and newly-elected governments face additional policymaking constraints. Thus, democracies (Stone, 2008) and borrowing countries with upcoming elections (Rickard and Caraway, 2014) tend to receive fewer conditions.

Second, the governments of member states are sensitive to private finance. For example, in 1989, the US Administration launched the Brady Plan to provide debt restructuring in Latin America, which served US interests because its banks were highly exposed in the region (Evans, 1999, p. 272). In addition, proximal principals attend to private financial interests in debates over lending programs (e.g., Broz and Hawes, 2006; Gould, 2003). Bilateral funds, multilateral institutions, and private finance institutions have leverage over the Fund because they supplement funding to address balance-of-payments crises. Conversely, they rely on IMF-mandated reforms and monitoring to secure repayment of their loans. Consistent with this relationship, private finance interests – approximated by private debt restructuring in borrowing countries before the incidence of an IMF program – are positively correlated with bank-related conditions (Gould, 2003). In addition, the degree of US money-center bank exposure in a borrowing country predicts the size of IMF loans (Broz and Hawes, 2006).

Third, debates on the debt relief initiative for Heavily Indebted Poor Countries (HIPCs) illustrate the cognitive power employed by NGOs. While the establishment of the HIPC debt relief initiative in 1996 was originally pushed by British officials, various groups from civil society – most prominently, the European Network on Debt and Development (Eurodad) and Oxfam International – pressured Fund staff and management (Evans, 1999; Hibben, 2015). In 1999, the initiative was enhanced to deliver "broader, faster, and deeper debt relief to a larger number of countries" (Gilman and Mitchell, 2004, p. 73). Along with increased default risk, the impetus for this modification of the initiative came again from NGOs (Michaelowa, 2003). The Jubilee 2000 campaign – a network uniting all major development NGOs and several big churches – held discussions with IMF management and staff, and successfully committed politicians of creditor governments to accept deeper debt relief (Busby, 2007; Michaelowa, 2003). Although the ability of NGOs to effect direct change has abated (Hibben, 2015), civil society actors, such as Eurodad or the Bretton Woods Project, continue to monitor the Fund's actions closely.

4. HOW DO STAFF MAKE DECISIONS?

To understand the politics of the IMF, focusing exclusively on the governance structures and external influences on principals is inadequate because it under-emphasizes actual decision-making practices within the organization. For instance, already in 1946 the Executive Board had decided that the chair (the Managing Director or a deputy) would identify the "sense of the meeting" as the basis for decision-making (IMF, 2017b). The Fund thus rarely votes and relies on consensus instead – like many other organizations (Martinez-Diaz, 2009) – although most Directors acknowledge that deliberations take place in the "shadow of voting power" (IEO, 2018). Conducive to studying the practice of decision-making, there has been a recent turn in International Relations to study the behavior of individuals (Krcmaric et al., 2020). Our framework reflects this; we draw on insights by organizational sociology and constructivism which emphasize organizational culture and intra-organizational processes (e.g., Barnett and Finnemore, 2004; Halliday and Carruthers, 2007; Kentikelenis and Seabrooke, 2017).

First, the chair of meetings in governing boards can effect change due to their considerable agenda-setting power (Hall and Woods, 2018). In the IMF, every Director has the right to table an item for discussion in the Executive Board. However, as chair of the meetings, the Managing Director determines the agenda. In a review by the Independent Evaluation Office of the IMF, some Directors suggested that high-income countries receive favorable treatment from management (IEO, 2018, p. 17). And, indeed, the Managing Director frequently exchanges information with US delegates informally (Stone, 2011). Managing directors, in their capacity as chair, also have considerable power to steer the Fund's operations according to their own preferences (Martin, 2006). In 2010, for example, the Poverty Reduction Growth Facility – a lending facility established in 1999 – was replaced by a lending framework offering increased concessional resources and greater flexibility of IMF financing. This reform was championed by the Managing Director of the time, Dominique Strauss-Khan, despite resistance from a divided Executive Board (Hibben, 2015).

Second, the bureaucracy has considerable power due to their expert authority (e.g., Barnett and Finnemore, 2004) which they can use to overcome bureaucratic struggles. IMF staff negotiate lending programs with borrowing governments and evaluate the implementation of policy reforms (which determines the disbursement of IMF loan tranches). As a result, these bureaucrats enjoy better access to information than their principals – one of the key sources of staff agency throughout IMF history (Martin, 2006). In meetings of the Executive Board, IMF staff provide background papers that form the basis of deliberation. In doing so, the bureaucrats influence norm-making, e.g., by defining what constitutes "unsustainable debt" and the eligibility of member states for multilateral debt relief (Momani, 2010). Further, the preferences of principals also determine the discretion of bureaucrats. When state representatives hold heterogeneous positions, staff has room to further their own interests. By contrast, when the Executive Directors pursue homogenous preferences, e.g., during a crisis, IMF bureaucrats need to pay closer attention to the demands of their principals (Martin, 2006). In short, IMF staff are subject to the principal-agent relationship, but they are not hostage to it (Seabrooke, 2012, 488).

Besides bureaucratic struggles and professional priorities, the decisions made by staff are also a function of ideological commitments. Educational background and professional experience socialize individuals and change the way they identify, frame, and solve problems (Seabrooke, 2014; Seabrooke and Nilsson, 2015). The role of education – in particular, training in economics – has received most scholarly attention. Almost all of the Fund's staff are trained in economics, with little disagreement about the IMF's call for monetary and fiscal conservatism and the prescribed economic policies (Momani, 2005, p. 183). Debates on the recruitment policies and objectives of the Economist Program – which recruited approximately half of Fund staff between the early 1980s and late 1990s – reveal tensions between the Executive Board and Management. Management interpreted the need for diversity as widening the range of staff nationality, and treated the financial quotas of countries as the respective benchmark. This is consistent with the mandate, which emphasizes recruiting personnel widely in geographical terms. By contrast, the Executive Board interpreted diversification with regard to the staff's educational background (Momani, 2005, pp. 178–181).

Empirically, studies corroborate the idea that training in economics is consequential for the Fund's operations. Economists with neoclassical training are widely thought to favor unrestricted flows of capital, goods, and labor as a means to organize market economies. Building on this, Chwieroth (2007) investigates the diffusion of capital account liberalization under the auspices of the IMF in the developing world between 1977 and 1997. Following the socialization literature, one would expect a common organizational background of key individuals in the IMF to foster the emergence and spread of capital account liberalization. Indeed, a higher share of economists in senior IMF positions with degrees from selected US universities translates into higher financial openness in borrowing countries (Chwieroth, 2007). The impact of the alma mater extends beyond the staff of international organizations. Countries where policymakers share the IMF's (neoliberal) economic beliefs – based on leveraging biographical details of more than 2,000 policy makers in 90 developing countries – get better deals, e.g., in terms of loan size or conditionality (Nelson, 2014).

5. WHAT ARE THE CONSEQUENCES OF THE IMF'S ACTIONS?

Having covered the governance and operations of the IMF, we turn to the consequences of their policy advice. We discuss the effects of lending programs and conditionality with respect to the Fund's stated objective of economic growth and debt management, their broader economic impact, and social consequences. In doing so, we focus on a subset of studies that control for selection into IMF programs: Countries that ask the IMF for financial assistance are unlike countries that do not participate in structural adjustment programs (for a methodological discussion, see Stubbs et al., 2020).

First, the evidence on the impact of IMF programs on economic growth is inconclusive, and results depend on the methodology, period, and sample of countries analyzed (see also

Steinwand and Stone, 2008). While some studies show that IMF programs reduce growth rates (e.g., Dreher, 2006), others find that the lending arrangements are associated with higher growth rates under certain conditions, such as a relatively low level of IMF financing (Bird and Rowlands, 2017). Further, the countries that are most interested in participating in IMF programs are the least likely to have favorable growth outcomes (Bas and Stone, 2014). In addition, IMF interventions should enable borrowing countries to achieve debt sustainability. According to research by IMF economists, the likelihood of sovereign defaults in developing countries following IMF-supported programs is significantly lower (Balima and Sy, 2019). IMF arrangements also diminish the probability of currency crises (Dreher and Walter, 2010). Yet, the high number of countries repeatedly asking for IMF support – recidivists – demonstrates that challenges in borrowing countries remain after the termination of an IMF program (Bas and Stone, 2014; Bird and Rowlands, 2017; Steinwand and Stone, 2008).

Second, lending programs of the IMF have broader economic consequences. For instance, participation in IMF programs demonstrates a country's willingness to reform its economy, thereby offering a seal of approval to foreign investors (e.g., Chapman et al., 2017; Krahnke, 2020; Vadlamannati, 2020). In practice, the market reaction to IMF programs depends not only on the loan size (Krahnke, 2020) and reforms (Vadlamannati, 2020), but also the political interests of lenders (Chapman et al., 2017). Programs with prior actions – reforms to be implemented before any loan disbursement – and quantitative performance criteria may be particularly suited to restore investor confidence (Vadlamannati, 2020). In addition, the catalytic effect of IMF programs on capital flows varies by economic sector (Breen and Egan, 2019). Such catalytic effect is also observed in selected policy areas for bilateral aid from the most powerful shareholders in the Fund, such as the US or Japan (Stubbs et al., 2016).

Third, reforms mandated by IMF lending programs are associated with a range of social consequences. These programs are harmful for social policies. For instance, conditionality reduces spending in developing countries (Kentikelenis et al., 2015), particularly in West African states (Stubbs et al., 2017a, 2017b), due to reforms that limit the fiscal space for investment in health, public wage caps, and health system decentralization. IMF staff dispute such findings (e.g., Gupta, 2015, 2017) and point to work promoting social safety nets for people in vulnerable situations (IMF, 2017c). However, targeted social assistance is contrary to the objective of universal social protection endorsed by the international community (e.g., see the Sustainable Development Goals) (Stubbs and Kentikelenis, 2018). Second, IMF lending programs deteriorate social outcomes. They widen health inequities, as manifested in lower access to health services and higher neonatal mortality in developing countries (Forster et al., 2020). IMF programs also increase income inequality (Forster et al., 2019; Lang, 2021; Oberdabernig, 2013), especially in democracies (Lang, 2021). The adverse distributional consequences stem primarily from fiscal reforms, debt ceilings, financial sector measures, and external sector liberalization (Forster et al., 2019). In addition, IMF programs affect domestic politics and may fuel social unrest. For example, IMF programs increase the likelihood of coup d'états by reducing the ability of leaders to compensate those individuals who bear the brunt of structural adjustment (Casper, 2017). Further, participation in IMF programs is associated with more protests (Bejar and Moraes, 2016; Moosa and Moosa, 2019, pp. 89–110), although studies on Latin America show that IMF interventions do not give rise to protests in countries where citizens can channel their discontent through a legitimate institutionalized party system (Bejar and Moraes, 2016).

6. THE IMF AND INTERNATIONAL DEVELOPMENT

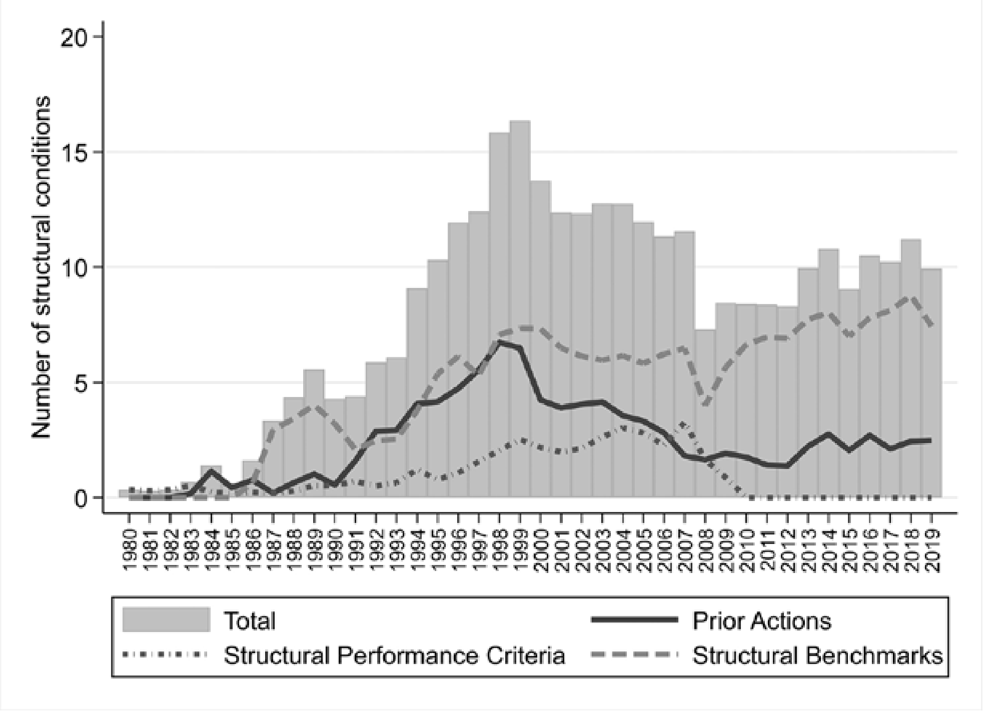
What do the politics of IMF operations imply for international development? The political imbalances in IMF governance matter for the legitimacy of the institution itself. The Fund ultimately derives its power in international development from its bureaucracy (Barnett and Finnemore, 2004). That is, powerful shareholders are only able to pursue their own preferences through the IMF as long as they are perceived to intervene in exceptional circumstances rather than on a continuous basis (Stone, 2011). Thus, there are openings for developing countries to become more important in setting the direction of the IMF and of international development more broadly. As the debates on debt relief or capital controls illustrate, weaker political actors possess the means to tilt the bargaining table in their favor. Key to successful interventions in the past were coalition-building and skillful argumentation that secures the support of IMF staff (Hibben, 2015; Kentikelenis and Seabrooke, 2017).

However, if actors with inferior formal power achieve their preferences only in selected cases, they will explore alternative strategies that endanger the future of the IMF. For example, many Asian countries have built up their own reserves to avoid IMF interventions in response to the Fund's handling of the 1997–1998 crisis (Lipscy and Lee, 2019). Similarly, the rising powers – China, Brazil, India, Russia, and South Africa – have responded to frustrated negotiations over a reallocation of IMF voting shares by creating new institutions. Both the New Development Bank (also known as BRICS Bank) and the China-led Asian Infrastructure Investment Bank (AIIB) signal a shift in the global balance of economic power (Babb and Kentikelenis, 2018).

The Fund's relationship with one rising power in particular – China – is likely to change the face of international development in years to come. Since the 2000s, China has increased its foreign aid exponentially and now offers borrowers in developing countries a viable alternative to the Bretton Woods institutions or powerful Western states (Bunte, 2019). Following the 2010 reforms at the IMF, described by then-Managing Director Dominique Strauss-Kahn as "the biggest ever shift of influence in favor of emerging market and developing countries" (IMF, 2010), China is now the Fund's third-largest shareholder. Although these changes only became effective in 2016 (once the US Congress ratified the amendment) China thus enjoys enhanced status in the IMF's governing body. Yet the US and a coalition of Western member states continue to hold veto power for the most important decisions, and Chinese staff remain underrepresented (Ferdinand and Wang, 2013).

In practice, the success of China–IMF collaboration depends on the extent to which the interests of the two actors are aligned. For instance, China successfully pushed for the inclusion of the Renminbi in the IMF's Special Drawing Rights (SDR) basket, thereby shifting the focus away from the US dollar and strengthening the Renminbi's position in the international monetary system (Wang, 2018). By contrast, China is more skeptical regarding the structural reforms mandated by the IMF and would prefer for the Fund to promote alternative views of development (Ferdinand and Wang, 2013). A glance at the evolution of conditionality since 1980 points to continued Chinese frustration on this front. In Figure 24.2, we depict the average number of structural conditions – e.g., pertaining to privatization of state-owned enterprises or labor market reforms – between 1980 and 2019. Structural reforms are more comprehensive than quantitative conditions (e.g., limits on government debt) because they define not only a target but also *how* countries should reform their economies to meet the specified goals. While the average number of structural reforms mandated in lending programs decreased slightly after 2000, their level is relatively constant since renewed demand for the IMF after the global financial crisis in 2008. This does not bode well for China's preferences towards a more "heterodox" IMF. In such cases, China pursues alternative strategies (Ferdinand and Wang, 2013; Wang, 2018), as the founding of the BRICS bank and AIIB demonstrates.

Further, Fund persistence in prescribing structural reforms stands in stark contrast to the organization's new rhetoric (Kentikelenis et al., 2016). The IMF prides itself on its commitment to the Sustainable Development Goals – yet its policies fall short on multiple goals, including gender and income inequality (Bretton Woods Project, 2017; Mariotti et al., 2017).



Source: Authors' database.

Figure 24.2 Structural conditions, 1980–2019

The Coronavirus-19 (COVID-19) pandemic provides the latest illustration of the IMF's reluctance to change its ways fundamentally. The IMF's response to the pandemic has been sluggish at best (Kentikelenis et al., 2020; Stubbs et al., 2021). Not only has the Fund made relatively trivial amounts of new financing available, it has also been slow to disburse the financing at its disposal – less than 15 percent in the first five months of the pandemic – thereby endangering the health and development of people in developing countries (Stubbs et al., 2021).

7. CONCLUSION

More than 75 years since its establishment, the IMF continues to be one of the most important actors in global economic governance. While it has shown remarkable longevity and successfully maneuvered challenges in the international monetary system in the past, it has yet to adequately respond to the latest shift in world politics. As discussed in this chapter, the disproportionate influence of Western member states continues to distort the IMF's effectiveness. Allies of the most powerful shareholders receive better treatment by the Fund (Lipscy and Lee, 2019). In turn, the Fund may need to spend more resources on those countries than their economic situation would warrant. More broadly, where the IMF's policy advice contributes to unintended social consequences, it has long-lasting consequences for the development trajectory of borrowing countries, as well as their relationship with the IMF.

The review of IMF governance and decision-making also points towards areas for future research. In particular, the research on bargaining in the IMF remains state-centric (for an exception, see Kentikelenis and Seabrooke, 2017). What exactly is the role of individuals? Whose interests do state delegates represent in deliberations? How do states pursue and achieve preferences in the absence of voting? To what extent are the consequences of IMF policy advice mediated by domestic leaders and institutions of borrowing countries?

International cooperation remains paramount today – particularly in light of transnational issues such as climate change or the COVID-19 pandemic. A better understanding of the governance and decision-making of the IMF and other intergovernmental organizations promises to advance knowledge on how to best address these issues. Global economic governance has been dominated by powerful states for decades. However, this chapter has also shown that states underrepresented in formal decision-making of international organizations can build coalitions to overcome opposition or seek alternative venues to achieve their preferences. This represents potential for fundamental change to the international financial and development architecture.

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