RANDALL W. STONE

Controlling Institutions

International Organizations and the Global Economy

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Controlling Institutions

How is the United States able to control the IMF with only 17 per cent of the votes? How are the rules of the global economy made? This book shows how a combination of formal and informal rules explain how international organizations really work. Randall W. Stone argues that formal rules apply in ordinary times, while informal power allows leading states to exert control when the stakes are high. International organizations are therefore best understood as equilibrium outcomes that balance the power and interests of the leading state and the member countries. Presenting a new model of institutional design and comparing the IMF, WTO and EU, Stone argues that institutional variations reflect the distribution of power and interests. He shows that US interests influence the size, terms and enforcement of IMF programs, and new data, archival documents and interviews reveal the shortcomings of IMF programs in Mexico, Russia, Korea, Indonesia and Argentina.

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International Organizations and the Global Economy

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To Norma and Robert Koenig

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Preface

As I write these words, the international economy is emerging from its most serious crisis since the Second World War. The Great Recession began in the US housing market, but quickly spread through the global network of financial institutions to affect every country in the world, most much more severely than the United States. The crisis has underscored weaknesses that had become apparent earlier in the institutions that govern the global economy – the International Monetary Fund (IMF, or the Fund), the World Trade Organization (WTO) and the European Union (EU); each of these institutions suffers from a severe crisis of legitimacy and effectiveness. Sweeping changes have been proposed in the architecture of international governance, and significant reforms have been introduced in the IMF and the EU. Meanwhile, politics continues: many states are seeking unilateral or bilateral rather than multilateral policy solutions, and the existing international governance mechanisms appear to be inconsistent with the changing distribution of global power.

The IMF responded to the impact of the crisis in some of the peripheral countries, including Belarus, Hungary, Iceland, Latvia, Pakistan, Romania, Ukraine, and finally Greece, but its resources were woefully inadequate to address the problems in the core countries. As the crisis deepened, the IMF's leading members tripled the size of its available resources, but it was apparent that states and their central banks remained the major players in international finance. The EU was challenged by the depth of the financial crisis in its poorer members, which seemed to threaten the stability of the euro zone and called for coordinated responses that were slow to emerge. As a result, a renewed debate arose about changing EU governance mechanisms. It remains to be seen what the effects of the crisis will be on the trade regime, where the WTO has developed into a robust legal regime for adjudicating disputes, but has been unable to advance an agenda of liberalizing trade and investment rules since the close of the Uruguay Round. Each of these institutions is profoundly affected by shifts in the distribution of global economic power, each is struggling to establish its legitimacy, and each is continuously reforming itself.

This project began as a study of the governance mechanisms of the IMF, but as the principles behind IMF governance emerged, it became clear that the argument applied broadly to international organizations of all sorts. In 2007, the Independent Evaluation Office of the IMF asked me to write an evaluation of IMF governance during financial crises of systemic importance to the world economy. As a temporary insider, I was granted access to reams of fascinating documents and was given a guided tour through the corridors of power at the Fund.[1] Perhaps most importantly, I had the opportunity to interact on a daily basis with Fund personnel and test my hypotheses against the accumulated experience of numerous careers in the IMF. As the author of a previous book and several articles on the IMF, I thought of myself as a bit of an expert on the subject, but I soon learned that many of my preconceived notions were erroneous. In particular, I had long been aware that the United States exercised a great deal of influence in the IMF, but I had never really asked the question, how is it that a country with (now almost) 17 percent of the votes can exert so much control? Once I learned the answer, I felt that I had to write this book; and along the way, I discovered that the answer shed a lot of light on other institutions, including ones that are deliberately designed to be quite different from the IMF. I framed my emerging understanding in the form of a formal model that is broadly applicable to international organizations, and indeed to many other sorts of organizations. The project gradually developed into a book about international organizations that treats the IMF as a focal case rather than a book about the IMF and financial crises.

Some readers (including one anonymous reviewer) may be suspicious of the claim that a single model of informal governance can explain essential features of the politics of diverse international organizations. I suspect, and indeed hope, that the reviewer has struck upon a question that will arise whenever the book is discussed. Most critics will concede the empirical analysis and description of the IMF case, which inspired the model, but may question the claims that the logic of informal governance works in similar ways in diverse institutional settings, and that the model illuminates the reasons for institutions for different issue areas to be structured in different ways. Had I wanted to write an uncontroversial book, I could have done so by scaling back my claims to the least common denominator that would evoke general agreement. However, I would miss the opportunity to draw what I think is the essential insight from the model, which is that institutional design is largely determined by the

[1] As a condition of this access, I was required to maintain the anonymity of my interview subjects. I apologize for the consequent lack of transparency in the footnotes.

balance of power and interests – in a precise way that the model delineates – rather than by technocratic efficiency.

More broadly, the book contradicts the conventional wisdom among students of international organizations that these institutions are efficient by design and designed to minimize transaction costs.[2] This view reflects a strong intellectual tradition in the economics of organization,[3] and a very influential strain of research in international relations variously described as institutionalism, neoliberalism, or neofunctionalism.[4] I argue that institutional design is mainly a matter of balancing power and interests rather than of minimizing costs. While realists in international relations have long suspected as much, they have never had anything very precise or rigorous to say on the subject.

The last part of the book conducts a detailed empirical study of IMF lending using new data and a series of case studies focusing on financial crises in Mexico (1995), Indonesia (1997), Korea (1997), Russia (1998) and Argentina (2001). Readers may be surprised to find how decisively the United States controls the size of IMF loans, the conditions attached to them and their enforcement. This is an important empirical claim of this book, which will surprise some experts on the IMF. There is a substantial literature that has focused on US manipulation of the IMF, but it is generally believed that the G-7 countries share control of the Fund broadly, and it came as a surprise to me to discover the degree of US dominance of important lending decisions as I investigated the individual cases. This, in turn, was confirmed by statistical analysis with a global sample. My analysis could not always reject the hypothesis that other G-5 countries affected the size, terms and enforcement of IMF programs, but generally did so. When other G-5 countries had an effect, it was generally much weaker than the effect of US influence. Whenever a strong comparative test was possible because the measures of US influence and G-5 influence were not highly correlated, the results supported the hypothesis of US influence and rejected the hypothesis of G-5 influence. I published some of the first systematic evidence that the IMF was manipulated by countries other than the United States in an article about Africa in 2004, but revisiting those results, I found that French influence over the terms of IMF programs appears to be limited strictly to Africa, parts of which have been ceded by the United States as a *de facto* French sphere of influence.

Along the way, I have accumulated a large number of intellectual debts. Many of the people I mention here will disagree with some of the arguments I advance, and none of them are responsible for my interpretation of my

2 Koremenos *et al.* 2001; Hawkins *et al.* 2006.
3 Williamson 1985; Milgrom and Roberts 1992.
4 Keohane 1984; Milner and Moravcsik 2009.

findings or for any mistakes I may have made. However, they have improved the final product immensely with their comments, criticism, and occasional opposition. It was an extraordinary opportunity to work closely with the staff of the IEO, and particularly with Ruben Lamdany. I am grateful to former and current IMF officials for their cooperation in providing interviews and access to documents, to the IEO for its support and valuable input from its staff, and to Borislava Mircheva and Roxana Pedraglio for valuable research assistance. In addition, Leonardo Martinez-Diaz, Ruben Lamdany, Thomas Bernes, Nils Bjorksten, Mariano Cortes, Iqbal Zaidi and Borislava Mircheva provided valuable comments and numerous critical insights. The IEO operates within narrow parameters as a unit of the IMF, and in the end it was decided that my paper was too sensitive for them to publish.[5] However, I have immense respect for the people who try to evaluate the IMF from the inside, and I believe their research has led to numerous important findings.

I have been privileged to be able to present my findings over the last two years at some of the top political science departments in the United States, and I wish to thank the faculty and students at Princeton, Harvard, Yale, UCSD, Duke, Tufts, and Rochester for their penetrating questions and comments. I presented this work at the Conference on the Political Economy of International Organizations, the International Political Economy Society, and the Political Economy of International Finance, and at conferences at Beijing University and Jagiellonian University in Kraków, and I thank the audience members for their probing questions and valuable suggestions. Special thanks go to Graham Bird, Lawrence Broz, Clifford Carruba, Mark Copelovitch, Gary Cox, Christina Davis, Axel Dreher, Jeffrey Dunhoff, Simon Hug, Judith Kelley, Robert Keohane, Mareike Kleine, David Lake, Helen Milner, Timothy McKeown, Ashoka Mody, Andrew Moravcsik, Layna Mosley, Thomas Oatley, Eric Reinhardt, Kenneth Scheve, Christina Schneider, Beth Simmons, Branislav Slantchev, James Vreeland, Thomas Willett and several anonymous reviewers. I have received copious suggestions on selected chapters from Deniz Aksoy, Christina Davis, Jeffrey Dunhoff, Alexandra Hennessey, Simon Hug, Bob Keohane, Mareike Kleine and Christina Schneider. Above all, I thank my graduate and undergraduate students at the University of Rochester, who have forced me to hone my arguments. Several of them have served as research assistants at various stages, including Jeffrey Arnold, Youngchae Lee, Jeffrey Marshall and Martin Steinwand. I thank Jeffrey Marshall in addition for typesetting the book in LaTeX. Surjya Ray designed the cover, and I thank CBC for permission to use the photograph. The cover depicts a protest in Thessaloniki, Greece, on May 2,

[5] A summary of the findings was published in Stone 2009a, and is available at www.ieo-imf.org/eval/complete/pdf/05212008/BP08_14.pdf.

2010, after the Greek government announced the policy conditions attached to the agreement by the IMF and euro zone members to extend 110 billion euros in loans. The slogan on the central banner translates as "Down with the Junta of PASOK [the initials of the governing socialist party] – EU – IMF," leaving little doubt about how the protestors felt about multilateral institutions.

I wish to thank the publishers of some of my articles for allowing me to draw on them for short passages from my 2004 *APSR* article, my 2008 *IO* article, my 2008 *RIO* article, and my chapter in Milner and Moravcsik.[6] One table and one figure are adapted from the 2008 *IO* article. All of the data analysis is new for the book. My discussion of the Russia case in Chapter 8 draws heavily on my previous Princeton University Press book, *Lending Credibility* (2002), but all the other cases are based on new research.

[6] Stone 2009b.

List of abbreviations

APD	Asia and Pacific Department, IMF
CAFTA	Central American Free Trade Area
CAP	Common Agricultural Policy
CDU	Christian Democratic Union (German)
CFF	Compensatory Financing Facility
EC	European Community
ECB	European Central Bank
EcoFin	Council of Economic and Finance Ministers
ED	Executive Director, IMF
EEC	European Economic Community
EFF	Extended Fund Facility, IMF
EMS	European Monetary System
EMU	Economic and Monetary Union
ESAF	Extended Structural Adjustment Facility, IMF
EU	European Union
G-7	Group of Seven
G-10	Group of Ten
G-20	Group of Twenty
GATT	General Agreement on Tariffs and Trade
IBRD	International Bank for Reconstruction and Development
IEO	Independent Evaluation Office, IMF
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
MFN	Most Favored Nation status
MTS	Medium Term Strategy
NAFTA	North American Free Trade Area
OECD	Organization for Economic Cooperation and Development
PDR	Policy Development and Review Department, IMF

PRGF	Poverty Reduction and Growth Facility, IMF
PTA	Preferential Trade Agreement
QMV	Qualified Majority Voting
SAF	Structural Adjustment Facility, IMF
SBA	Stand-By Arrangement, IMF
SEA	Single European Act of 1986
SPD	Social Democratic Party of Germany
SPE	Subgame Perfect Equilibrium
UN	United Nations
UNSC	United Nations Security Council
WHD	Western Hemisphere Department, IMF
WTO	World Trade Organization

1

Introduction: international organization and US power

Government is gradually replacing anarchy in the international system, and international governance is largely accomplished by means of international organizations. International organizations have proliferated, have expanded in membership, have acquired new legal enforcement powers, and have extended their reach into the details of domestic political economy in their member states. A few, including the International Monetary Fund (IMF, or the Fund), command significant resources and wield considerable authority. International organizations are emerging as important actors in their own right, but they also remain potent power resources for influential states. The informal power that a leading state can exert through international organizations plays an important role in US foreign policy.

By the beginning of the twenty-first century, international organizations had become an essential instrument of effective statecraft even for the most powerful state in the system, and for most other states under most circumstances, they were the only forums in which anything could be accomplished. International organizations are useful, to powerful and weak states alike, because they can extend credibility and legitimacy to efforts that would otherwise lack credibility and legitimacy. This often makes the difference that makes multilateral cooperation feasible; and the challenges posed by an increasingly interdependent global economy typically demand coordinated responses.

The legitimacy and independence of international organizations are always provisional, because they exist in a system of states, and states enjoy very unequal power resources. In order to assure the participation of the most powerful states, international institutions have developed informal procedures that accommodate their interests. States with attractive outside options cannot commit to abide by disadvantageous rules when their preferences are intense. However, when powerful states abuse their informal prerogatives, they undermine the legitimacy and usefulness of international organizations. Any characterization of the role of an international organization in the system, therefore, is a snapshot of a dynamic process, as its informal internal procedures and its external legitimacy and functions change in response to state strategies. In the post-Cold War world, most shocks to the system originated in the foreign policy interests of the leading state, the United States; but even this is changing as the distribution of power shifts.

International organizations are compelled to navigate the treacherous vortex created by US power. If they stray too far from the current, they become irrelevant to US policy, and may find themselves adrift; yet if they are captured by the US policy preoccupations of the moment, they risk losing their legitimacy. An example of the first tendency is the United Nations Security Council, which the United States has marginalized when it failed to support US policies in the former Yugoslavia and Iraq. An example of the latter is the IMF, which has become so tilted towards US preferences that it has lost much of its legitimacy in the developing world. Organizations of which the United States is not a member, such as the European Union (EU), face similar dilemmas with respect to their own most powerful members, as Germany and France have repeatedly demonstrated. However, in the absence of a single dominant member, informal governance is more broadly shared and negotiated among a handful of major players.[1]

The existence of power politics, the frequency of informal manipulation and the possibility of forum shopping by powerful states put important limits on the autonomy of international organizations. Far from marginalizing international organizations, however, these practices highlight their significance as instruments of state power. Even in the field of international security, where states guard their freedom of action most jealously, international organizations play a key mediating role. Despite its global military reach, the United States finds that the use of force is less costly and more effective when employed in conjunction with an international organization. In international trade, the United States has attractive outside options and can often exert more leverage through bilateral bargaining than through the World Trade Organization (WTO); yet the WTO can also serve as an effective fulcrum. Indeed, US influence inside and outside the WTO often complement each other. In international finance, the United States remains the most important player because it issues the global reserve currency, but the integration of global capital markets makes multilateral coordination necessary to manage contagion during financial crises. Furthermore, constitutional barriers generally prevent the United States from reacting to financial crises that originate beyond its borders with the speed or resources

[1] Moravcsik 1998.

that the IMF is able to muster.[2] In each case, international organizations are deeply influenced by US power, but US power also rests in large part upon the ability to influence international organizations.

For all other states in the international system, the choices are starker. Only American elites seriously question the significance of international organizations, because only the United States is able to exercise attractive unilateral options. In some cases, members of the EU are able to exercise an effective threat of exit from another organization by acting as a group; but they are able to do so only because their commitment to the EU is so strong. For European, Japanese, Chinese, Russian and Brazilian elites, the geography of the international system is defined by the opportunities and constraints created by international institutions. Most foreign policy objectives can only be achieved by working through international organizations, and this is increasingly true of domestic policy objectives as well.[3] As these countries become increasingly integrated into the world economy, and the world economy places increasing burdens on the global environment, the number of fundamental national interests that can only be achieved through international organizations expands. These states have only limited informal influence within international organizations, but their membership and formal privileges in international organizations represent significant elements of their national power.

International organizations loom still larger in the calculations of poor countries with weak states, which are most vulnerable to internal conflict and most exposed to the vicissitudes of global markets. In these countries, international organizations are often important players in domestic politics. They can cause governments to fall, or prop them up; they can create irresistible pressure to carry out policy reforms; they can forge or shatter political coalitions.[4] Leaders of these countries find that the only way to exert effective leverage over international organizations is to appeal to the leading states in the system – usually, to the United States – to exert informal influence on their behalf. This intervention tends to undermine the credibility and autonomy of the interna-

[2] In the aftermath of the 1995 Mexican peso crisis, Congress imposed limitations on the use of the Treasury's Exchange Stabilization Fund, which had been used as a line of credit for Mexico. In 2008 and 2009 the United States helped to contain the spread of the global financial crisis by lending freely, particularly to Europe and to South Korea, but this was done by the Federal Reserve through exchange swaps, and the Federal Reserve is legally independent of presidential control.

[3] Even apparent exceptions seem to reinforce this generalization. The Russian clash with Georgia in August 2008 demonstrated a willingness to use force unilaterally and showcased the rebounding capabilities of the Russian military, but came at a cost that earlier Russian leaders would have been unwilling to pay in terms of isolation from Europe and hardening of NATO. In recognition of this isolation, Russia suspended its long-standing application to join the WTO, which it had made numerous political concessions to advance.

[4] Pop-Eleches 2009.

tional organization involved, which may weaken its legitimacy *vis-à-vis* third parties.[5] It also comes at a cost to the client state, because the United States extracts political concessions in return for its intervention, and these concessions may reduce the legitimacy of the organization in the eyes of the client state's population.

The shifting architecture of international governance

At the time of writing, the United States remains the unchallenged leader of the international financial system, but the most severe weaknesses in its financial system and external accounts since the Great Depression and the largest fiscal deficits as a share of output since the Second World War threaten to erode this dominance in the future. Meanwhile, the United States has come to share hegemony in international trade, first with Europe, and subsequently more broadly with a coalition that includes major developing countries. The EU has consolidated its internal authority and expanded its membership, but the positions of its strongest members have slipped in the hierarchy of world power and in relation to other European countries. Substantial weight in the world economy and in international relations has shifted to the largest countries in the developing world, including China, India and Brazil. Both the formal and the informal mechanisms of international organizations are shifting to accommodate these new realities. This book looks backwards to explain the functioning of international organizations, but as soon as the pattern comes into focus, the landscape begins to change.

The international financial institutions are a rapidly moving target. A patchwork of institutions covers various aspects of the financial landscape, including the IMF, with primary lender-of-last-resort responsibilities; the World Bank and various regional multilateral development banks that share responsibility for promoting economic development and related objectives; and the Bank for International Settlements, Organization for Economic Cooperation and Development and a network of standard-setting agencies that perform regulatory functions. This schematic description is simplified, as the various agencies share many of their functions, coordinate with each other, duplicate efforts, and continuously reinvent themselves.

The IMF and the World Bank have evolved gradually for most of their history, although the pace of change has accelerated in response to recent events. The original division of labor between balance of payments support

5 Steinwand and Stone 2008; Stone 2002, 2004, 2008.

and economic development has become blurred. As the club of net creditors has expanded and demand for financing has increased in the developing world more rapidly than the supply, the policy conditionality required by the IMF and the World Bank has escalated and become more comprehensive. Meanwhile, the net creditors constrained the growth of IMF resources so that they steadily declined as a share of world economic activity, which made co-financing of crisis programs by the Bank essential.[6] In response to the global financial crisis, however, they reversed this trend and approved a tripling of IMF resources in 2009, drawing the necessary financing mainly from the United States, Europe, Japan and China, and dramatically shifting the proportions of financing to the organization. The expansion did not increase IMF quotas, which are analogous to equity shares and are accompanied by voting rights, but instead expanded the Fund's lines of credit with major shareholders. At the time of writing, the implications of this change for the distribution of formal voting rights has not yet been determined, and how changes in formal authority will affect the informal governance of the Fund remains to be seen. However, it is clear that both formal and informal governance of the IMF will respond to the redistribution of economic resources that has been driven by rapid growth in the developing world.

The world trading system has experienced even more dramatic shifts. Established as an informal negotiating forum with no enforcement powers, the General Agreement on Tariffs and Trade was transformed at the conclusion of the Uruguay Round by the creation of the World Trade Organization (WTO) in 1995, accompanied by an expansive set of new rules covering trade in goods and services, intellectual property rights, and foreign investments. The story of how this came about is an interesting study in the use of informal power by the United States and the EU. The result is a formalized system of international trade litigation, the creation of a rapidly growing body of case law, and the emergence of judicial activism. The complexity of the legal landscape has increased dramatically, and the use of litigation to resolve trade disputes has rapidly expanded. Since the end of the Uruguay Round, however, there has been no further progress on trade treaties. An increasingly assertive group of developing countries, led by Brazil, India and China, has resisted efforts by the advanced industrial countries to assert an agenda of further liberalization, and has insisted on substantial progress in reforming trade in agriculture as a precondition for further progress on other fronts. Meanwhile, the industrialized countries have blocked progress on agriculture, which has led to stalemate in the Doha Trade Round. The center of gravity in international trade negotia-

[6] Gould 2006; Stone 2009c.

tions has moved from the WTO to a rapidly growing network of bilateral and regional trade and investment treaties, as countries with attractive outside options have sought alternative ways to exert leverage over their trading partners.

Parallel to the formal international organizations is a shifting set of groupings of privileged countries, which often set the agenda for the international organizations. Between the early 1970s and the end of the 1990s, the preeminent grouping was the G-7, consisting of the United States, Britain, France, Germany, Japan, Italy and Canada. While the G-7 summits of heads of state were often inconclusive, the informal negotiations that took place continuously at lower levels provided guidance to the IMF and defined the parameters for multilateral trade negotiations. The G-7 included countries that issued all of the major currencies, controlled the majority of IMF shares, and conducted the majority of world trade, so when they reached consensus they could generally rely on their ability to bring about a similar consensus in other international forums. Membership in the elite group was a valuable prerogative, which gave countries of middle rank a seat at the table that their closest rivals envied, but influence was by no means equally shared. The United States exercised substantial control over the agenda and enjoyed deference to its proposals, so that consensus operated differently than unanimity voting. For the marginal members of the club, Italy and Canada, admission came at the behest of France and the United States, respectively, and their diplomacy reflected their interest in assuring that the major players continued to regard the G-7 as a valuable instrument.[7] The leading power could gain leverage by forum shopping, or threatening to shift discussions from the G-7 to the G-5, G-10, or G-20.

The G-7 was substantially marginalized in the second George W. Bush administration, and many of the roles it played were replaced by the G-20. This represented an acknowledgment of a sea change in the distribution of world power, but it is significant that the United States was able to accomplish the transition rather effortlessly. Membership in the G-7 had always been valuable primarily because it was a club of the closest US colleagues, so the US announcement that it would henceforth negotiate with a wider grouping was irresistible. At the same time, the transition acknowledged a decline in US influence. US influence within international organizations rests on consensus among the major players, and as the share of world resources controlled by the major US allies declined relative to that of the largest countries in the developing world, the interests of the key players became more heterogeneous. The G-20 will not be as pliable as the G-7. For some purposes, as in IMF lending, G-7 finance ministers and their deputies continue to exert a controlling interest.

[7] Bayne and Putnam 1984.

However, it is significant that it was the G-20 rather than the G-7 that took the lead in coordinating international responses to the 2008 financial crisis. The expansion of IMF financing in 2009 was driven by the United States, but was adopted as a concrete goal by the G-20 summit in April.

Roadmap

This is a book about how international organizations really function, through a combination of formal and informal rules. The book's empirical core is based on extensive qualitative work in the IMF archives and interviews with IMF staff and executive directors, as well as quantitative work using the IMF's records of conditionality. The argument applies broadly to other international organizations, because informal governance is ubiquitous, but it applies with important variations. The terms of informal governance are negotiated differently in different contexts, and depend upon the distribution of issue-specific power and interests. The informal practices of institutions differ from their formal rules, and the varieties of governance respond to shifts in the distribution of power.

Chapter 2 outlines the book's main argument and explains how the mechanisms of informal governance relate to broad debates in political science about international power and legitimacy, on the one hand, and to the particular issues of delegation to international organizations and institutional design, on the other. The formal model developed in Chapter 3 defines the terms of the argument precisely and derives implications from it for institutional design, delegation, performance, and legitimacy.

Chapter 4 describes the formal and informal governance arrangements of the IMF, emphasizing the institutional features – a weak Executive Board and delegation to a strong management – that preserve a back channel that allows the United States to control the organization. Chapter 5 makes a similar qualitative analysis of the WTO, and Chapter 6 presents the case of the EU, illustrating the model's ability to shed light on the logic of institutional design. The model focuses on the use of exit options by powerful countries and informal influence outside formal channels, which are common features across the three institutions, although the balance of formal and informal governance varies substantially. The comparative statics of the model indicate that the degree of long-term conflict of interest among the members of an institution and the number of leading powers in its issue domain account for the variation in delegation across institutions and across issue areas within each institution.

While the three chapters in Part Two illustrate the logic of the theory qualitatively, Part Three turns to rigorous hypothesis testing and focuses on the IMF.

The three chapters that follow trace the course of an IMF program through its product cycle, from decisions about the amount of access allowed to IMF resources, to negotiations over conditionality, and on to enforcement of conditionality when programs go off track. The testable implications of the model are that US informal influence over the Fund should be observable when the United States pushes for exceptions to rules, that these exceptions should only be made for important countries, and that they should be made when the borrowing country has an urgent need for IMF financing. These claims are tested statistically using the Monitoring of Agreements Database (MONA), which contains the IMF's records of conditionality, including which conditions were implemented, modified or waived, and when programs were suspended. The mechanisms involved are illustrated with reference to five major financial crises: Mexico (1994–95), Indonesia (1997), South Korea (1997), Russia (1998) and Argentina (2001).

The concluding chapter returns to broad themes of legitimacy and change in international organizations. The model suggested that power and legitimacy interact in precise ways, and traces out the implications of two kinds of change: change in US structural power, and change in the range of temptations the United States faces to intervene. As American structural power declines, the United States is compelled to act with greater restraint in order to maintain the legitimacy of international organizations, and the role of formal governance in shaping the policies of these organizations should become more important. However, if the temptations that the United States faces to exploit its remaining informal influence rise as US structural power declines, the legitimacy of international organizations is likely to be jeopardized. There is striking evidence that this has occurred already in the IMF and the WTO.

PART ONE

THEORY