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The Quest for Rejuvenated Legitimacy: The Rise and Protracted Demise of the IMF as A Global Actor

Sadık ÜNAY*

Abstract

The IMF, which stood at the helm of the global financial architecture since the end of the Second World War as a key Bretton Woods institution, has been a consistent locus of criticism. Recently, there seems to be general consensus in academic and policy-based circles that the Fund is suffering from a deep "legitimacy crisis". In this study, the respective global missions assigned to the Fund under the classical Bretton Woods and economic globalization regimes, its peculiar relationship with major global powers, the substantial erosion in the sources of its institutional legitimacy and policy credibility are evaluated. The declining capacity of the IMF to act like a global crisis manager is assessed in the light of recent crises. The main thesis is the study is that profound governance reforms are needed to restore the legitimacy of the Fund, towards which several concrete proposals are specified.

Keywords: *International Monetary Fund, Financial Crises, Global Governance, Political Legitimacy, Global Powers*

INTRODUCTION

The International Monetary Fund (IMF) was formed by the victors of the Second World War to constitute one of the fundamental pillars of the Bretton Woods System of global economic governance alongside its sister organizations, the World Bank and the GATT. In its stated capacity, it managed to remain at the helm of the international financial system for more than half a century which witnessed a virtually permanent process of adaptation to emerging conditions and unexpected challenges. Over the course of its historical transformation trajectory, the IMF has faced various and constantly expanding global mission definitions and operational priorities in line with dramatic changes in international political conjunctures as well as prevailing global finance and exchange rate regimes. At the same time, the Fund has always been placed at

* Assistant Professor, Balıkesir University, Faculty of Economic and Administrative Sciences, Department of International Relations, Bandırma, Balıkesir.

the centre of intense controversy regarding its shadowy organizational structure and decision-making procedures; overwhelming ideological inclinations and policy priorities of its staff; its lack of political legitimacy and policy credibility on the eyes of the borrowers; as well as its asymmetric dependence on the US. Consequently, the issue of IMF reform, which began to be widely discussed in the aftermath of the Asian financial crisis in 1997-98, came to dominate the agenda in the leading platforms of global governance a decade after in view of unfolding transformations and new crises in the world economy.

This study particularly aims to contribute to the literature in political economy, development and international economic institutions by presenting a theoretically and historically enlightened account of the IMF's transformation trajectory. To this end, the shifting global mission definitions of the institution during the classical Bretton Woods and globalization regimes are highlighted to prepare the groundwork for the detailed discussion on the "legitimacy deficit". The fundamental sources of the Fund's legitimacy and credibility problems are indicated with special reference to the principles of internal organization and decision-making procedures, ideological preoccupation with neoliberalism, asymmetric dependence to the US and biased approach to developing country situations. The IMF's relatively poor performance in the design and implementation of structural adjustment programs in various settings, as well as its abysmal crisis management record particularly during the Asian and Argentinian crises are stressed to explain the rise of a more fragmented and decentralized financial regulation structure as a response to the last subprime crisis. The final part of the study outlines the potential governance reforms that could partially restore the acute legitimacy deficit of the Fund and explores how political deals could be struck among major global powers to secure them.

FROM BRETTON WOODS TO GLOBALIZATION: THE FUND'S TRANSFORMATION TRAJECTORY IN A NUTSHELL

The UN's "Money and Finance Conference" which convened in July 1944 in Bretton Woods, New Hampshire with the participation of 45 countries is generally interpreted as a milestone event in the reconstruction of the global economic governance. The American administration skillfully used the window of opportunity provided by the extraordinary conditions of the war and endeavoured to concoct widespread international agreement on the formation of a politico-economic institutional framework that represents its fundamental assumptions about a benign global order.[1] Consensus-building about the organizational structures and mission definitions of the two pillars of the Bretton Woods regime, the IMF and the World Bank Group respectively, occurred under intense diplomatic wrangling and hard-fought bargaining among

[1] For pioneering analyses on the historical evolution of the International Financial System in the post-war era see, Barry Eichengreen, *Globalizing Capital: A History of the International Monetary System*, (Princeton: Princeton University Press, 1996); Jacqueline Best, *The Limits of Transparency: Ambiguity and the History of International Finance*, (Ithaca: Cornell University Press, 2005); James Boughton, 'The IMF and the Force of History: Ten Events and Ten Ideas That Have Shaped the Institution', IMF *Working Paper*, (Washington DC: IMF, 2004).

great-powers towards the end of the war. The original design and mission definition of the IMF in particular, and the overall composition of the Bretton Woods regime in general, reflected the lessons taken from experiments like the Versailles Treaty, League of Nations and Great Depression in the interwar period which highlighted the importance of an institutionalized economic governance mechanism to preserve both economic and socio-political stability in the international system.[2]

The composition and main priorities of the Bretton Woods institution reflect an overarching belief to the idea that both domestic and global growth dynamics need firm institutional foundations. There was a widespread consensus on the need to prevent a repetition of global instability, economic contraction resulting from protectionism and competitive devaluations resorted by many developed states in the 1930s. Moreover, the rise of the Keynesian consensus among academic and political circles based on the premise that the state should play a more proactive role to promote economic growth and social-structural transformation as opposed to classical economic liberalism prepared the intellectual groundwork for the formation of an international order that tolerated relatively interventionist regimes. Finally, the desire of the US elite to present the global public opinion a capitalist compact which had credibility and relevance against the popular socialist model of development provided an additional motivation to keep the Western camp together through coordinated economic integration.[3]

The predominant character of the Bretton Woods governance regime based upon the juxtaposition of a liberal approach to international trade and finance with a relatively interventionist growth and welfare discourse in the national realm led various analysts to label it "embedded liberalism" in the sense of a liberal international order embedded in a national social purpose.[4] However, from the vantage point of the IMF it is crystal clear that the Fund has rapidly managed to get rid of its Keynesian underpinnings and redefined its policy priorities in close proximity to the original American position of market friendly economic governance. In due course, legal ambiguities in the founding "Articles of Agreement" of the IMF provided ample space of manoeuvre to the American policy makers and international technocrats to interpret the goals, instruments and credit conditions of the Fund along with the premises of neoclassical economics.[5]

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2 Louis Pauly, *Who Elected the Bankers: Surveillance and Control in the World Economy*, (Ithaca: Cornell University Press, 1997).

3 Mark Beeson ve Andrè Broome, 'Watching from the Sidelines: The Decline of the IMF's Crisis Management Role', *Contemporary Politics*, Vol. 14, No. 4, 2008, p. 395.

4 John Gerrard Ruggie, 'International Regimes, Transactions and Change: Embedded Liberalism in the Postwar Economic Order', in Stephen Krasner, (der.) International Regimes, (Ithaca: Cornell University Press, 1983), p. 195-231; John Ikenberry, 'A World Economy Restored: Expert Consensus and the Anglo-American Postwar Settlement', *International Organization*, Vol. 46, No. 1, 1992, p. 289-321.

5 James Boughton, 'Why White, not Keynes? Inventing the Post-War International Monetary System', in Arie Arnon ve Warren Young (der.) *The Open Economy Macro Model: Past, Present and Future*, (Dordrecht: Kluwer, 2002), p. 74.

From the early 1960s it became clear that the Bretton Woods regime became unsustainable in the long term in the wake of eroding global competitiveness of the US vis-à-vis Germany and Japan, the dramatic increase in international financial movements and inflationist pressures on American public finances. The snowballing impact of increasing public spending costs due to the Vietnam War, the European protests, the first international oil crisis and increased social spending requirements in the US brought the end of the fixed exchange-rate regime. At this juncture, Special Drawing Rights (SDRs) was created as a formal international currency to be used in transactions between the Central Banks of the Fund members so as to produce a temporary solution to the growing international liquidity problem. However, when liquidity provision to the international financial system through the SDRs proved insufficient, the Nixon-Kissinger administration "closed the gold window" by cancelling the convertibility of the US dollar into gold and major industrialized economies followed suit until 1973, thereby leading to the gradual transition to a global flexible/floating exchange rate regime. The abrupt end of fixed exchange rate system and transition to floating rates along with substantial liberalization of international capital movements triggered a quest for a rejuvenated mission definition and new sources of political legitimacy for the Fund.[6]

The fundamental parameters of the global political economy was seriously shaken up by the waves of financial globalization from the early 1970s triggered by the geometric increase in private capital accumulation, new speculation avenues created by exchange rate differentials and lifting of formal obstacles and taxes that exerted a restrictive impact on international capital movements. The emergence of novel instruments in the financial sector along with technological improvements in software and communications industries and "financial engineering" techniques led to a radical redefinition of the international division of labour with respect to the international channels of production, investment and trade through the expanding remit and depth of multinational corporations as global actors. A parallel development concerned the explosive expansion in the scope and volume of transactions in international financial markets starting with the development of "offshore" and "Eurodollar" markets and difficulties of maintaining control on especially short-term capital movements.

Although the IMF lost its safety-valve position at the centre of the global financial system in the post-1971 era along with the predominance of flexible exchange rates and liberalized capital movements, it managed to preserve its critical standing particularly with regard to developing countries through its monitoring, technical support and credit functions aimed at macroeconomic policy making regimes of its members. Furthermore, trends towards intensive financial globalization triggered by increasing international liquidity and technological breakthroughs triggered a radical overhaul of the IMF's relationships not only with the governments of member states but also with both public and private credit sources. While countries experiencing balance of

6 Eric Helleiner, *States and the Reemergence of Global Finance*, (Ithaca: Cornell University Press, 1994).

payments problems under the fixed exchange rate regime almost automatically used to resort to short/medium-term IMF financing, from the 1980s Fund credits allocated under strict conditionality began to be perceived as a catalyst for substantial private financing. Therefore, the IMF itself was transformed from a mainstream credit provider for its members into a "signalling post" whereby standby agreements with members were used to indicate the overall economic health of a borrowing state and provide assurances and guidance for forthcoming private lenders.[7]

However, the international debt crisis of the 1980s proved to be a milestone development. It resulted in a paradigmatic change in the IMF's credit extension criteria in the context of stand-by agreements and structural adjustment programs, thereby transforming the Fund's patterns of interaction with the political elite in borrowing countries. This was especially true with regard to critical encounters between the Fund and the petrol importing Latin American countries and African countries attempting to complete their physical infrastructure needs after the decolonization period. The massive volume of the global financing requirements and the complexity of the economic problems experienced by numerous developing countries led to a significant expansion in the administrative-bureaucratic branches of the IMF and galvanized its position as a "permanent international crisis manager".[8]

DECONSTRUCTING THE LEGITIMACY CRISIS: ISSUES OF REPUTATION AND POLICY CREDIBILITY

Building up a credible international reputation among its relevant stakeholders and audiences constitutes the fundamental requirement for the effectiveness of major international institutions. The process leading to a credible reputation, in turn, involves a painstaking and cumulative progression which requires the production of an impressive track record in the respective institution's specified area of operation. While high degrees of policy credibility and a positive reputation considerably increase the capacity of international institutions to influence the behavior of public and private actors in the global political economy, successive failures and blunders could easily degrade good reputations, thereby undermining policy credibility and ability to affect political and economic outcomes.[9] Given its central position at the heart of the international financial architecture for more than half a century, the IMF has been subject to serious criticisms regarding its organizational structure, decision-making mechanisms, policy priorities, ideological inclinations of its staff and credit conditionality criteria applied to its members. However, starting from the second half of the 1990s various analysts contributed to an ever-

[7] James Boughton, 'The IMF and the Force of History', p. 11.

[8] James Boughton, 'From Suez to Tequila: The IMF as a Crisis Manager', *Economic Journal*, Vol. 110, Issue 460, 2000, p. 274.

[9] Andrè Broome, 'The Importance of Being Earnest: IMF as a Reputational Intermediary', *New Political Economy*, Vol. 15, No. 3, 2008, p. 125.

growing literature about the perceived "legitimacy crisis" of the IMF in the contemporary global political economy.[10]

Specifically, the IMF's reputation as a credible and competent global crisis manager was seriously shaken as a result of its institutional blunders and policy inconsistencies during and after the Asian financial crisis, which led the G-7 economies to bypass the Fund and look for alternative venues, such as the Financial Stability Forum (FSF), for the reconstruction of global financial architecture. On the other hand, there has been a visible decline in demand for IMF loans originating from middle-income countries in view of the eroding policy credibility of the Fund accompanied by a more critical attitude towards the institution from the top US policy makers. Therefore, one of the most important features of multifaceted criticisms and reform propositions raised recently against the IMF relate to a striking convergence between the concerns of various circles pertaining to the apparent "legitimacy crisis" of the Fund.[11] The issues of legitimacy and policy credibility are particularly vital for an international institution such as the IMF because in the era of financial globalization and floating exchange rates the Fund has sought to maintain its relevance to global governance mechanisms largely by means of these notions. It tried to act as a credible 'middleman' or 'gatekeeper' who could provide assurances to international public and private investors about the local conditions, reliability of institutional frameworks and political stability in a specific country, thereby facilitating the inflow of foreign funds.

Broadly speaking, it is possible to categorize the foremost critics who question the IMF's global legitimacy into two major and overlapping groups: There are those who focus on the ideological/transformative aspect of the Fund and perceive it as a rigid enforcer of the neoliberal transformation agenda by largely disregarding accountability to its wider membership; and there are those focus on the role of the IMF in pursuing objectives of 'high politics' and identify the Fund as a foreign policy instrument of major global powers. But in both cases, the common denominator that binds most critical analyses on the IMF from different ideological persuasions and academic backgrounds concerns the idea that the Fund suffers from a serious institutional legitimacy deficit which is quite difficult to ameliorate without radical reforms.[12] From the perspective of the analysts emphasizing the IMF's role in imposing the neoliberal development paradigm and transformation agenda, the Fund is generally conceived as an

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[10] Jacqueline Best, 'Legitimacy Dilemmas: The IMF's Pursuit of Country Ownership', *Third World Quarterly*, Vol. 28, No. 3, 2007, p. 469-488; Leonard Seabrooke, 'Legitimacy Gaps in the World Economy: Explaining the Sources of the IMF's Legitimacy Crisis', *International Politics*, Vol. 44, No. 2/3, 2007, p. 250-268; Devesh Kapur ve Moises Naim, 'The IMF and Democratic Governance', *Journal of Democracy*, Vol. 16, No.1, 2005, p. 89-102.

[11] See, for instance, John Eatwell ve Lance Taylor, *Global Finance at Risk: The Case for International Regulation*, (New York: The New Press, 2000); Joseph Stiglitz, *Globalization and its Discontents*, (New York: Norton, 2002).

[12] Daniel D. Drezner, *All Politics is Global: Explaining International Monetary Regimes*, (Pinceton, NJ: Princeton University Press), p. 147; Ngaire Woods ve Amrita Narlikar, 'Governance and the Limits of Accountability: The WTO, the IMF and the World Bank, *International Social Science Journal*, Vol. 53, 2001, p. 569-583.

institutional agent of industrialized states dictating developing countries standart policy reforms through strict surveillance and lending criteria. In this respect, the majority of the Fund's developing members are effectively 'policy takers' vis-à-vis the major global powers that provide the Fund's financial resources and dominate the decision-making procedures.[13]

Descriptively, the IMF's role as a neoliberal policy enforcer is generally portrayed to derive from either its specific internal institutional culture, or a shared ideological commitment among the major international financial institutions to disseminate neoliberal norms on a global scale with the aim of constructing a market-ideological hegemony. In this vein, the prevailing organizational culture within the Fund is claimed to generate pathologies leading to conservative attitudes towards orthodox policy measures and the status quo in the global political economy and opposition to the employment of heterodox or reformist approaches.[14] It is also widely stressed that the Fund's attempts to promote elements of 'universal best practice' creates restrictions in the choice set available for developing country administrations and work for the benefit of major industrialized states and global capital. Hence, the IMF's prevailing inclination to utilize international financial crises as windows of opportunity to impose neoliberal reform packages upon developing country administrations under strict conditionality constituted one of the most fundamental points of criticism. Various circles attracted attention to the rapid erosion in the institutional prestige, political legitimacy and credibility of the Fund by emphasizing that its 'one size fits all' approach disregards local peculiarities and prevents national policy flexibility, thereby failing to restore growth and social harmony.[15]

As far as maintaining policy credibility and institutional reputation is concerned, perhaps the most evident source of constraint on the IMF's policy autonomy is political interference by its major shareholders exerted through pressurizing the Executive Board. Critical analysts often accuse the Fund for being a mere foreign policy instrument of major global powers led by the US due to the weighted voting system that applies to most critical Executive Board decisions, and therefore most of the reform proposals focus on the revision of the weighted voting system.[16] As the formal mechanisms of representation

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13 Thomas D. Willett, 'Understanding the IMF Debate', The Indepenedent Review, Vol. 5, No. 4, 2001, p. 594; Ben Thirkell-White, 'The International Financial Architecture and the Limits to the Neoliberal Hegemony', *New Political Economy*, Vol. 12, No.1, 2007, p. 22-23; Ngaire Woods ve Domenico Lombardi, 'Uneven Patterns of Governance: How Developing Countries are Represented in the IMF, *Review of International Political Economy*, Vol. 13, No. 3, 2006, p. 480-515; Andrè Broome ve Leonard Seabrooke, 'Seeing Like the IMF: Institutional Change in Small Open Economies', *Review of International Political Economy*, Vol. 14, No. 4, 2007, p. 577-578.

14 Bessma Momani, 'Limits on Streamlining Fund Conditionality: The International Monetary Fund's Organizational Culture', *Journal of International Relations and Development*, Vol. 8, No. 2, 2005, p.155.

15 Michel Webb, The *Political Economy of Policy Coordination: International Adjustment Since* 1945, (Ithaca: Cornell University Press, 1995); Joseph Stiglitz, *Globalization and its Discontents*, (New York: Norton, 2002).

16 David Rapkin ve Jonathan Strand, 'Reforming the IMF's Weighted Voting System', *The World Economy*, Vol. 29, No. 3, 2006, p. 305-324.

within the Fund awards excessive voting rights to developed, especially the European states, and the US maintains absolute veto power over critical decisions that necessitate 85 per cent majority with its voting rights, the Fund has been severely criticized due to its embedded 'democratic deficit'.[17] These criticisms are not weakened by the fact that most of the Executive Board decisions are made through consensus and formal voting procedures are rarely utilized, because there is extensive evidence to prove that dominant global powers regularly intervene in crucial Board decisions to advance their geostrategic, economic and foreign policy interests.[18]

Despite the seemingly autonomous status of the Fund from outside intervention, the top IMF management is under constant and strong informal pressure from the major shareholders, in particular the US. Both the US Congress and administration could exert considerable influence and manipulate managerial decisions through the employment of direct and indirect means. On its part, the Congress could deliberately delay or facilitate the passing of a specific domestic legislation authorizing a potential increase in IMF quota allocations, thereby influencing the decisions of other Fund members.[19] The US administration is also perceived to exert an undue effect on IMF management as the largest shareholder and the holder of the central reserve currency to promote US foreign economic policy, push for soft loans for its military allies, veto loans for antagonist states and promote the corporate interests of its major firms.[20] Besides different forms of external pressure on the IMF originating from US Treasury dubbed as the 'Treasury Effect', Executive Directors are often seen to approach Fund staff responsible from negotiating a loan agreement with a strategically important country to influence the design and the scope of the policy conditions involved in the programme.[21]

The lucid parallelisms between the foreign policy priorities of the US and some of the critical credit decisions of the Fund in the developing world also became a source of fierce criticism focusing on the conjunctural use of the IMF along with the World Bank to further the geo-strategic and geo-economic agendas of the Washington administration. The transformation of the IMF from a global financial union aimed at assisting its global membership in their liquidity needs to a neo-colonial apparatus through which industrialized Western states provided financial support to peripheral countries under strict

17 Peter Evans ve Martha Finnemore, 'Organizational Reform and the Expansion of the South's Voice at the Fund', G-24 Discussion Paper Series, No. 15, (New York: United Nations, 2002), p. 6.

18 Bessma Momani, 'American Politicization of the International Monetary Fund', *Review of International Political Economy*, Vol. 11, No. 5, 2004, p. 880-904; Thomas Oatley ve Jason Jackee, 'American Interests and IMF Lending', *International Politics*, Vol. 41, No. 3, 2004, p. 415-429; Strom Thacker, 'The High Politics of IMF Lending', *World Politics*, Vol. 52, No. 1, 1999, p. 38-74.

19 Lawrence Broz ve Michael Hawes, 'Congressional Politics of Financing the International Monetary Fund', International Organization, Vol. 60, No. 2, 2006, p. 367-399.

20 Sarah Babb, 'The IMF in Sociological Perspective: A Tale of Organizational Slippage', *Studies in Comparative International Development*, Vol. 38, No. 2, p. 16-17; Evans ve Finnemore, 'Organizational Reform and the Expansion of the South's Voice at the Fund', p. 7.

21 Momani, 'American Politicization of the International Monetary Fund', p. 895.

conditions became effective in tarnishing the Fund's institutional image even further.[22]

The ability of major international organizations such as the IMF is conditional upon their ability to mobilize not only "hard power" assets such as credit conditionality requirements but also a strong "soft power" potential deriving from their institutional prestige and credibility in order to construct widespread consensus on key issues and convince the global public opinion for collective initiatives. This, in turn, necessitates a resilient basis of institutional legitimacy embedded in technical, procedural and practical fields. T*echnical legitimacy* relates to the professional effectiveness and objectivity of an institution's personnel, whereas *procedural legitimacy* concerns the transparency and credibility of decision-making and implementation mechanisms. Finally, *practical legitimacy* is gathered through a cumulative process involving concrete successes in the field leading to crystallization of tried-and-approved methods of best practice, as well as institutional prestige.[23]

As far as the technical legitimacy of the Fund is concerned, the IMF has long been criticized for departing from the Keynesian inclinations of its founding fathers and epistemically relying on the orthodox neoliberal paradigm and Anglo-Saxon universities to meet its human resources needs. Certain critiques of the Fund's personnel policy argued that, despite the "passport pluralism" among its staff, the Fund's official approach to social and economic development was so rigid that even the Pentagon had a more pluralistic organizational culture.[24] Furthermore, it was also stated that the Fund's policy priorities such as balance of payments stability, anti-inflation measures, economic growth, fighting international financial crises and good governance were quite often internally inconsistent, had crucial political implications in numerous national contexts, and triggered excessive international technocratic involvement in national decision-making processes. In particular, strict credit conditionality criteria stipulated in IMF-World Bank structural adjustment programs have become the locus of intense criticism with special reference to their politicized nature, links with American foreign policy interests, disregard for local differences and differential levels of commitment during their implementation.[25]

From the vantage point of procedural legitimacy, the ambiguity of the legal stipulations included in the Articles of Agreement of the IMF has been interpreted as the signs of a deliberate intent to allow conjunctural interventions in the mission definition, priorities and policy instruments

[22] Andrè Broome, 'The Importance of Being Earnest: IMF as a Reputational Intermediary', p. 125-151.

[23] Mark Beeson ve Andrè Broome, 'Watching from the Sidelines', p. 394.

[24] Martha Finnemore, 'Governing the IMF', 2002, Remarks at the IMF Economic Forum, http://www.imf.org/external/NP/EXR/ECForums/2002/ 091702.htm (Accessed on: 3 November 2009).

[25] Jeffrey Sachs, 'The IMF and the Asian Flu', T*he American Prospect*, Vol. 37, 1998, p. 16.

available to the Fund.[26] Indeed some of the most critical and politically sensitive aspects of Fund operations continued to rely on very shaky and vague legal foundations. As a result of this vagueness embedded in the Fund's legal-institutional foundations from its inception, a rather pragmatic approach was adopted by the IMF administration and staff to deal with balance of payments problems, international financial crises and conclusion of structural adjustment programs in member states. However, as crucial developments in the international economic and political conjunctures such as the consolidation of the Cold War, international oil crises and the international debt crisis prompted completely new dynamics in terms of the structuration of global pecking order, new conditions were added to the Fund's credit arrangements and its global mission was constantly redefined in a state of infinite metamorphosis. However, despite this unbounded metamorphosis with regard to the IMF's priorities and operational principles over time, there was striking stability in terms of the preservation of the isolated, inward-looking, opaque and unfair nature of the representation and internal decision-making mechanisms, as well as the asymmetrical influence exerted by the Washington administration upon Fund management.[27]

There have been strong lines of criticism about the "asymmetric dependence" between the IMF and the American administration as its largest share holder, credit resource and the owner of the international reserve currency, dollar. Critical evaluations regarding the negative implications of the particular relationship between the Fund and the Washington administration on the political legitimacy, technical viability and institutional credibility of the Fund became influential in problematizing mainstream thinking on the IMF's positioning vis-à-vis the US state and instigated fresh calls for reform in this area as well.[28] The more direct and structural dimension of the decisive American influence on the Fund concerns the critical quota rights around 17 per cent held to maintain unilateral initiative for the approval or veto of the critical decisions made by the Executive Committee, along with the provision of financial resources required for Fund operations. The more informal and indirect aspect, on the other hand, pertains to the persuasive impact of American policy makers and especially the US Treasury on the Fund, or the so called "Treasury Effect", usually expressed through direct pressure on the Fund's top management on the eve of critical decisions bypassing the Executive Committee. For instance, it has been frequently stressed that particularly at critical crisis conjunctures such as the Asian financial meltdown or the recent subprime mortgage calamity, the US Treasury is actively involved in the preparation of favourable credit and rescue packages for countries that are

[26] Keith Horsefield, *The International Monetary Fund*, 1945-1965, Volume I, Chronicle, (Washington: International Monetary Fund, 1969), p. 159.

[27] Joseph Gold, *Interpretation*: IMF *and International Law*, (London: Kluwer Law International, 1996).

[28] Strom Thacker, 'The High Politics of IMF Lending', p. 39.

deemed strategically important in terms of American foreign policy interests and maintenance of global balances in political and economic realms.[29]

It is perfectly justified to indicate numerous procedural inconsistencies in the Fund's current organizational and operational mechanisms which include sustained injustices in the quota and voting system that favours small European countries,[30] the secretive nature of Executive Committee meetings, and lack of transparency concerning the Committee debates. Furthermore, the selection process for the Fund's Director is ad hoc, undemocratic and highly politicized which more often than not occurs behind closed doors through diplomatic wrangling among the Western state elite. Finally, the unwritten post-war code of conduct between the Americans and the Europeans stipulates that the Director of the IMF shall be a European, his First Deputy shall be an American and the President of the World Bank shall be an American citizen. This too, expectedly, raises harsh criticisms questioning the global representative ability and legitimacy of the Fund from the representatives of emerging economies.

Profound changes in the global political economy over the last half century made it increasingly more difficult for the IMF, like other institutional elements of the Bretton Woods governance architecture, to acquire a strong base of procedural legitimacy from the vantage point of international legal norms and the expectations of member countries. While the Fund demands good governance and democratic consolidation from member states in the context of credit conditionality criteria, many of its organs and representatives accept that it needs to go a long way to realize representative justice in its internal mechanisms and establish transparent and widely acceptable procedural norms to inform the global public opinion about the underlying reasons and implications of its critical decisions. As things stand, emerging market economies generally raise demands involving such measures as revising the country quotas that determine the financial contributions, voting rights and credit allocations of members;[31] revisions in the number of specialized and joint country representatives in the Executive Committee; increased transparency in the formulation and implementation of Fund decisions; and harnessing a more participatory and pluralistic management culture.

In terms of practical legitimacy as well, IMF-World Bank sponsored stabilization and structural adjustment programs exerted a negative impact on

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[29] Justin Robertson, 'Reconsidering American Interests in Emerging Market Crises: An Unanticipated Outcome of the Asian Crisis', *Review of International Political Economy*, Vol. 14, No. 2, 2007, p. 289.

[30] It must be stressed that European countries are allocated one third of all representation rights in IMF platforms which creates excessive cases of under-representation especially for larger developing countries. For example Netherlands with a population of 16 million people has a larger quota and more voting rights than India hosting a population over a billion.

[31] For instance, as a result of the injustices created by the quota system the US currently holds 16.77 per cent of whole voting rights in the Fund, whereas Japan is allocated 6.02 per cent, Germany 5.88 per cent, France and the UK 4.88 per cent, China 3.66 per cent, Russia 2.69 per cent, Brazil 2.42 per cent, and India a mere 2.35 per cent. For detailed information see, http://www.imf.org/external/np/sec/memdir/eds.htm (Accessed on: 3 November 2009).

long term socio-economic development by imposing liberalization measures via stand-by agreements under crisis conditions, thereby facilitating the collapse of local industries and social networks. In this context, it must be emphasized that the Fund's institutional legitimacy and credibility with regard to practical success in policy formulation and implemantation has seriously been eroded over the course of the last thirty years. There is no doubt that this erosion gained additional momentum during and in the aftermath of the Asian Crisis manifested in the widespread regional opposition against the policy prescriptions of the Fund which were perceived to provide a backdrop for the transfer of Asian-owned assets to Anglo-American corporate interests. The practical legitimacy of the Fund was further undermined due to the marginalization of the institution during the early phases of the subprime crisis indicating its inability to interfere into global crisis situations that originate from core countries.

The failure of the Fund to determine the fundamental dynamics which triggered major financial crises in some of the the most vibrant parts of the world economy along with its insistence on standard reform packages that aggravate ongoing problems triggered an intra-institutional process of self-criticism and led to partial revisions in Fund advice given during financial crises.[32] Although the potential pitfalls of swift financial liberalization in national settings lacking effective regulatory mechanisms in financial and banking sectors were gradually understood, the institutional credibility and "soft power" of the Fund in the eyes of the international financial community was seriously undermined. The fact that the IMF did not give up any concessions from its neoliberal structural transformation agenda under various crisis circumstances created a *technical legitimacy* deficit for the Fund in the eyes of most developing country governments, while clear mistakes done in the selection and employment of policy instruments exacerbated its *practical legitimacy* deficit.[33]

GOVERNANCE OF GLOBAL FINANCIAL CRISES AND THE IMF

As stressed in the previous parts, the explosion of the international debt crisis in the aftermath of the successive oil shocks and abortive experiences of dirigisme in the developing world has raised the IMF into the position of a "global crisis manager". The Fund became considerably effective in supervising the gradual recovery of several Latin American and African countries from defaults and overseeing their transition to functioning free market economies. Along with its central position in the international debt regime, the Fund earned a reputation as the undisputed locus of global governance during potential financial calamities. However, the formulation and implementation of inconsistent and abortive recovery policies during and after the Asian financial crisis triggered a critical process through which the IMF's consolidated position

[32] IMF Evaluation Office, 'The IMF and Recent Capital Account Crises: Indonesia, Korea and Brazil', 2003, www.imf.org/external/np/ieo/2003/cac/pdf (Accessed on: 3 November 2009).

[33] Andrè Broome, 'The Importance of Being Earnest: The IMF as a Reputational Intermediary', p. 125.

as the "global crisis manager" began to be seriously questioned. This intense process of questioning was manifested into severe discussions both outside and inside of the organization regarding the fundamental intentions, policy priorities and implementation capacity of the Fund.

In this context, one of the principal points of criticism concerned the lack of analytical depth associated with a strong ideological preoccupation with the orthodox neoliberal development paradigm amongst the top brass of the Fund's management which prevented the formulation of accurate diognoses and appropriate recipies for a myriad of different national socio-economic problems. To illustrate, over the course of the 1980s and early 1990s the IMF, along with the World Bank, wrongly defined the sustained developmental success and rapid growth trajectory of East Asian countries as a "miracle" created by dynamic and export-oriented free market economies[34] by ignoring their institutional, social and geostrategic peculiarities. However, a close look at the specific development experiences in the Asian-Pacific Rim clearly illustrates the differential impact exerted on individual trajectories by bureaucratic mechanisms dominated by "developmental states"[35] equipped with "embedded autonomy" vis-à-vis the corporate and social sectors,[36] which in turn facilitated the formation of relations of "governed interdependence" between state institutions, private market actors and civil societies.[37]

The IMF which proved wrong in terms of its diognosis concerning the root causes of sustained growth and socio-economic development in East Asia was not surprisingly proved wrong as well in terms of its recipies for recovery in the aftermath of the Asian crisis. The Fund, as ever, conceived the crisis conjuncture as a perfect opportunity in which radical steps of structural reform in trade and financial liberalization could be imposed on countries in the absence of sound regulatory infrastructures. In the meantime, the relative success of China, maintaining a tightly controlled fixed exchange regime supported by financial controls, and Malaysia, which categorically rejected IMF prescriptions and imposed tight controls on financial flight, in managing the destructive effects of the crisis and instigating swift recovery compared to countries like Indonesia and South Korea which closely followed IMF advice further undermined the Fund's credibility in the region and the wider developing world.[38]

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[34] World Bank, *The East Asian Miracle: Economic Growth and Public Policy*, (New York: Oxford University Press, 1993).

[35] Meredith Woo-Cumings, *Race to the Swift: State and Finance in Korean Industrialization*, (New York: Columbia University Press, 1991); Meredith Woo-Cumings (der.) *The Developmental State*, (Ithaca: Cornell University Press, 1999).

[36] Peter Evans, *Embedded Autonomy: States and Industrial Transformation*, (Princeton: Princeton University Press, 1995).

[37] Linda Weiss, *The Myth of the Powerless State: Governing the Economy in a Global Era*, (Cambridge: Polity, 1998).

[38] Rawi Abdelal, *Capital Rules: The Construction of Global Finance*, (Harvard: Harvard University Press, 2007).

In particular, in countries such as South Korea characterized by an extensive developmental state and *Chaebol* economy with high rates of foreign debt liability, excessive socio-economic costs of IMF-sponsored austerity packages and rapid transfer of ownership in the local corporate sector to Western companies at below-market prices invigorated popular calls for "neo-imperialism". The painful implications of the crisis exacerbated by overreliance on global financial sources as well as inconsistent IMF prescriptions also transformed the strategic inclinations of the policy makers in the region and prompted a sharp return to endogenous, or "Asian", growth strategies based on high domestic savings and public-private collaboration. At the peak of the crisis, the Japanese government proposed the foundation of an Asian Monetary Fund to constitute an alternative source of external liquidity for East Asian countries without the intrusive and heavy-handed conditionality associated with the IMF. Although the proposal was quickly shot down by vehement opposition from the US and China who worried about Japan's regional intentions, regional swap agreements between East Asian monetary authorities were strengthened.[39]

In the meantime, widespread lack of trust to the IMF as a lender of last resort led Southeast Asian countries like Thailand and Indonesia gather substantial foreign currency reserves in addition to Japan and China enjoying considerable trade and current account surpluses, which contributed to the galvanization of a sound financial base in East Asia designed for gaining relative autonomy from Western financial sources and the IMF's institutional clout in view of potential financial crises in the future.[40] The so-called Chiang Mai Initiative which was started in 2000 to organize regional swap arrangements expanded rapidly and the Asian Development Bank gradually undertook some of the traditional surveillance functions formerly performed by the IMF.

The negative repercussions of the IMF's crisis management during the Asian Crisis on the institution's policy credibility and reputation were aggrevated by the impact of the Argentine economic collapse in 2001. Widely perceived as one of the 'star pupils' of the IMF throughout the 1990s under the able hands of Economy Minister Domingo Cavallo, the country succumbed into a sudden and fierce economic crisis which was widely interpreted as evidence of IMF's failure to sustain macroeconomic stability and foresee looming crises. With the US administration under President Bush reluctant to confirm a major IMF bailout package due to concerns to prevent 'moral hazard', Argentina experienced the largest sovereign debt default in world history which constituted a milestone event in shaping widespread attitudes towards the Fund. Kirchner administration's subsequent strategy to successfully utilize their extensive financial relationship with the IMF to extract further private funding and segment private creditors in advantageous terms also undermined the Fund's strong image and left the IMF in a weak state in Latin America.[41] Consequently,

[39] Yong Lee, 'Japan and the Asian Monetary Fund', *International Studies Quarterly*, Vol. 50, No. 2, 2006, p. 339-366.

[40] The Economist, 'Asian Horders', 10 April 2007.

[41] Eric Helleiner, 'The Strange Story of Bush and the Argentine Debt Crisis', *Third World Quarterly*, Vol. 26, No. 6, 2005, p. 951-969; Andrew Cooper ve Bessma Momani, 'Negotiating Out of

Argentina and Brazil almost simultaneously declared their decisions for early repayments of IMF loans in 2006 which was widely portrayed as a sign of regional solidarity against the financial intrusions of the Fund. Several Latin American governments, reminding the tendencies in East Asia, proposed regional financial facilities to substitute the IMF's conventional roles and, expectedly, the loudest critics of the Washington consensus and indirect US involvement became the most ardent supporters of these regional arrangements. To illustrate, Venezuelan President Hugo Chavez suggested the formation of "Banco Del Sur" in order to serve the financial needs of Southern Cone countries exclusively by completely bypassing the IMF.

High levels of discontent with the IMF's operations in borrower countries in the developing world were not confined to East Asia and Latin America. In sub-Saharan Africa, particularly, there emerged strong lines of criticism towards the intrusive policy conditionality of the Fund that caused widespread socioeconomic suffering and the neoliberal nature of the consequent policy advice. However, deprived of the option to use exit strategies and cut off their financial relations with the IMF as their East Asian and Latin American counterparts, sub-Saharan African governments were forced to focus their criticisms to internal governance mechanisms and measures to give developing countries more "voice" at the institution.[42] In a nutshell, the decline of the IMF's institutional legitimacy and policy credibility in the eyes of its potential borrowers has acted as a precipitating factor behind the dominant trend in the developing world to avoid IMF lending and seek for alternative financial resources.

From another angle, the entrenched role of the IMF as an undisputed global crisis manager was undermined because of the changing attitude of its principal shareholder and sponsor, the US administration concerning the theoretical evaluation and practical management of international crises. Over the course of the 1990s the Clinton administration conceived the maintenance of stability as a key strategic objective for American interests and proactively supported IMF initiatives aimed at resolving the Mexican *Tequila* Crisis and the Asian Crisis by means of large-scale bailout packages. Yet the mainstream academic-/intellectual climate in the US began to shift towards a more neoliberal and IMF-sceptical direction at the end of the 1990s under the influence of arguments focusing on 'moral hazard'. Academics and policy makers from a market-based persuasion effectively articulated the idea that large-scale rescue packages extended by the IMF were distorting proper signals in international markets and facilitating reckless lending by international investors. Critics of the Fund argued that it was absolutely necessary to scale back or even eliminate altogether IMF bailouts in order to deal with this moral hazard problem. Consequently, the IMF gradually adopted its approach to financial crises during its involvement with

Argentina's Financial Crisis: Segmenting the International Creditors' *New Political Economy*, Vol. 10, No. 3, 2005, p. 304-320.

42 Eric Helleiner ve Bessma Momani, 'Slipping into Obscurity? Crisis and Reform at the IMF', *Centre for International Governance Innovation Working Paper*, No. 16, February 2007, p. 6.

the Korean crisis in 1998 and subsequent crisis in Ecuador, Pakistan and Ukraine in 1999 and 2000 in order to 'bail in' private creditors in the prevention and resolution of defaults.[43]

Extensive opposition to large-scale IMF bailouts also gained ground in the US Congress, particularly among the isolationist Republicans. The famous "Meltzer Report" prepared by a Congressional Commission to review American policy towards the IMF and other international financial institutions recommended an urgent and dramatic scaling back of the activities of the IMF.[44] In the meantime, the election of the George W. Bush to the Presidency and his appointment of neoliberal-minded Paul O'Neill as Treasury Secretary provided the much needed political muscle to the proponents of the 'bail in' approach who argued for increased private sector participation and non-intervention in cases of sovereign default to prevent dangers of moral hazard on the part of the national policy makers.[45] Starting from the dramatic financial crisis in Argentina, the US administration displayed a strong stance to resist calls for additional IMF assistance to those countries that failed to meet their initial macroeconomic targets.[46] This stance was maintained during lengthy multilateral negotiations following the Argentinian default much to the displeasure of other creditors. In fact, up until the end of the Bush administration's tenure at office, political support for new forms of IMF funding and expansion of Fund's mandate in global financial governance was actively resisted by the US administration.[47]

The two critical factors outlined above, namely the increasing reluctance of developing country governments to resort to IMF lending in view of the Fund's declining institutional legitimacy and policy credibility as well as the reluctance of the US administration to devote substantial funds to open-ended financial bail out packages, caused a radical transformation in the IMF's role as a global crisis manager. Consequently, the Fund's considerable marginalization during the early stages of the subprime crisis contrasted sharply to its playmaker attitude up until the Asian Crisis. The fact that the crisis originated from the lightly regulated Western financial markets and spread to the world economy trembled most of the systemic assumptions of the IMF regarding under-regulation and moral hazard in the periphery and produced new challenges.[48]

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43 Paul Blustain, *The Chastening: Inside the Crisis that Rocked the Global Financial System and Humbled the IMF*, (New York: Public Affairs, 2001), chapters 7, 9.

44 International Financial Institutions Advisory Committee, *Report of the IFIAC Submitted to the US Congress and Department of Treasury*, 8 March 2000.

45 Ron Suskind, *The Price of Loyalty: George W. Bush, the White House and the Education of Paul O'Neill*, (New York: Simon Schuster, 2004), p. 173-243.

46 A crucial exception to this trend concerns the case of Turkey that experienced a major financial crisis in 2000-2001 and was allowed to withdraw several times of its quota allocation from the IMF. Most observers interpreted the exceptional lenience shown to Turkey with reference to the geostrategic concerns of the US administration and particularly the increasing importance of Turkey in the post-11 September 2001 era in the wake of military operations to Afgahnistan and Iraq.

47 Eric Helleiner ve Geoffrey Cameron, 'Another World Order? The Bush Administration and HIPC Debt Cancellation', *New Political Economy*, Vol. 11, No. 1, 2006, p. 125-140.

48 Robin Blackburn, 'The Subprime Crisis', *New Left Review*, Vol. 50, March-April 2008, p. 63-106.

In fact, before and during the subprime crisis many leading analysts have questioned the IMF's crisis management abilities by indicating that countries were finding alternate ways of external financing in an environment of increased international capital flows, and IMF lending did not generally play a positive catalytic role in facilitating private capital inflows at crisis conjunctures.[49] Moreover, there has been a rapid proliferation of public and private institutions in recent years that overlap the surveillance and lending roles of the IMF which are less prone to similar legitimacy and accountability problems, forcing the Fund to accept becoming a 'node in a financial network' rather than a top-down bureaucracy.[50] The global crisis conjuncture and the attitudes of major global players in designing and implementing the emergency measures indicated that the IMF could only maintain its relevance in global financial governance in the future as part of a more pluralistic and flexible network of national, regional and intergovernmental agencies, private institutions and public-private networks. This was the cumulative consequence of developments over the course of the last two decades during which complicated governance architecture emerged in regulating global finance comprising commercial unions and trade associations, specialized committees at the Bank for International Settlements (BIS), International Organization for Securities Commissions (IOSCO), OECD, World Bank and IMF. Within this assemblage of informal and formal groupings, the IMF did not represent the most important part, despite its high political profile.

The Fund itself was in a difficult situation throughout 2008 unable to find new borrowers except desperate low-income countries and facing the prospects of a $ 300 million deficit which led to the historically biggest redundancies in IMF staff (13 per cent).[51] Then in the G-20 Summit led by the EU in November 2008 the Fund looked like a phoenix when it was assigned new roles pertaining global financial regulation along with the promise of substantial new funding, which was made subject to comprehensive governance reforms. Although the IMF made new lending arrangements with particularly some of the emerging economies in 2009 experiencing acute trade and balance of payments problems due to the contractionary impact of the crisis and declining demand in industrialized markets, it did not recover its coordinating position at the helm of international financial regulation by any means.

Global financial crises frequently act as crucial milestones in the governance and regulation of international financial markets by stimulating new regulatory responses. The current economic crisis has not only undermined the widespread neoliberal belief in the self-regulating ability of global markets, but also catalyzed a trend towards comprehensive re-regulation. But unlike the Asian Crisis which triggered the formation of the Financial Stability Forum (FSF)

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[49] Martin Edwards, 'Signalling Credibility? The IMF and Catalytic Finance', *Journal of International Relations and Development*, Vol. 9, No. 1, 2006, p. 27-52.

[50] Louis Pauly, 'IMF Surveillance and the Legacy of the Bretton Woods', in David Andrews, der., *Orderly Change: International Monetary Relations Since Bretton Woods*, (Ithaca: Cornell University Press, 2008).

[51] Jo Marie Griesgraber, 'Reforms for Major New Roles of the International Monetary Fund? The IMF Post-G-20 Summit', *Global Governance*, Vol. 15, 2009, p. 179-185.

by the leading national and international regulatory and supervisory groupings to constitute global applicable financial codes and best practice, the current crisis unleashed centrifugal powers that may lead to fragmentation of financial governance in the medium term. This development is particularly important as it may eliminate structural dynamics that are required to support the maintenance of standard regulatory forms and centralized institutional actors such as the IMF in the supervision and restructuring of international financial governance.

To illustrate, German policy makers, having called for tighter international financial regulations before the crisis, openly accused 'Anglo-American' financial principles as the primary causes of the global crisis on many occasions and stressed that a multipolar global financial system will be the main product of the ongoing predicament. There are clear tendencies to create regional financial standards, rating and surveillance mechanisms and funding agencies in Europe.[52] Similarly, Japan and China are lobbying for the formation of an Asian version of FSF to have some leverage from international standards and codes determined in London and New York and imposed through BIS, IMF and other institutional channels.[53] At the same time, relative deterioration in overall US economic performance substantially increases the perceived risk levels in the world economy and directs especially emerging market economies to increase the variety of their foreign exchange reserves in favour of Euro and longer term financial assets like Treasury bonds.[54]

Therefore, the post-crisis conjuncture presents profound challenges on both theoretical and practical levels for the IMF if it is to maintain any chance of regaining its primacy in the governance of international monetary system. Theoretically, the premises of the orthodox neoliberal approach to financial integration such as unconditional openness to international flows and transparency is substituted by a post-Washington consensus approach focusing on collective security. Having seen the abysmal crisis management of IMF during the Asian crisis, even the G-20 seems to have joined the fray in recognizing that poorly managed integration into the global financial networks and premature capital account liberalization might trigger financial crises.[55] Moreover, the majority of economic analysts agreed on the need to devise more effective mechanisms of global and national financial governance.

Practically, on the other hand, the Fund was placed in an awkward position in the peak of the crisis when it had to advise the US administration for improvements on regulative oversight on financial markets, anti-inflation measures and partial tax increases. From the angle of the IMF, despite frequent

52 Eric Helleiner ve Stefano Pagliari, 'Between the Storms: Patterns in Global Financial Governance', in Geoffrey Underhill et al., der., *Global Financial Integration Thirty Years On*, (Cambridge: Cambridge University Press, 2010).

53 Leon Mangasarian, 'US Losing Finance Superpower Status, Says Germany', *Bloomberg News Service*, 25 September 2008.

54 Kathleen McNamara, 'A Rivalry in the Making: The Euro and International Monetary Power', *Review of International Political Economy*, Vol. 15, No. 3, 2008, p. 439-459.

55 Mark Beeson ve Stephen Bell, 'The G-20 and International Economic Governance: Hegemony, Collectivism or Both?', *Global Governance*, Vol. 15, 2009, p.78.

lip service on convincing the Washington elite on the necessity of conventional economic measures such as disciplining the public finances, tighter monetary and fiscal policies and more realist evaluations on financial derivatives, their acute lack of soft power assets triggered an unavoidable process of institutional marginalization. The US as the largest economy in the world that never borrowed from the Fund and holding veto power on most critical decisions could comfortably override IMF's prescriptions, which creates dynamics of internal tension, conflict of interest and inconsistency on several IMF platforms, thereby aggravating the erosion in the institutional legitimacy and effectiveness of the institution. This state of affairs is particularly disturbing for the major emerging markets given the US which already lost its lender of last resort capacity is also losing its position as the "consumer of last resort" that feeds growth in the global economy; in other words, shifting from a powerhouse deemed "too important too fail", to a fragile unit perceived as the locus of global frailties.[56]

The fact that the IMF was only able to become active after the subprime crisis reached the developing world via Europe and concluded recovery agreements with various developing countries was interpreted as a useful way of transferring the burden of post-crisis adjustment from the North to the South.[57] On a broader level of analysis, the trajectory followed in the governance of the subprime crisis which involved a relative disregard for the IMF by industrialized country governments and global leadership of the Fed, American Treasury, leading Central Banks and informal platforms such as G-8, G-20 and FSF indicates a new global pattern. In other words, it portrays the emergence of a new conventional wisdom, or orthodoxy, stipulating that the Fund could manage financial crises that originate from and principally concern developing economies with which it has established credit relations. Yet, it has to wait in the background for the financial crises that originate from or chiefly concern Western financial markets and could only get involved after a political deal is struck among major global players concerning a medium-term exit strategy from the crisis. This confirms the Fund's relative marginalization from a "policy maker" into a "policy taker" status during the management of major global crises despite its universal membership and wide remit.

REFORMING GOVERNANCE AT THE FUND: THE QUEST FOR LEGITIMACY THROUGH PARTICIPATION

Recently, it became commonplace to witness calls from the governments of developed and developing states, international organizations, academics and civil society organizations that the IMF is in serious need of comprehensive reform to re-establish its legitimacy and policy credibility. However, it is also undeniable that various global actors and pressure groups tend to support particular reform agendas deemed compatible with their respective imageries concerning the global order and interest formulations. The US and industrialized

[56] Will Hutton, 'A Deluded Wall Street Threatens the World Economy', *The Observer*, 16 March 2008.
[57] Mark Beeson ve Andrè Broome, 'Watching from the Sidelines'.

countries support a more limited reform agenda focusing on the technical efficiency of the Fund and its capacity to interfere into international financial crises, while major emerging economies and especially BRICs (Brazil, Russia, India, China) propound a more comprehensive reform program that comprise a radical restructuring of the organizational structure, mission definition, voting procedures and composition of the IMF's Executive Committee. Objectively, the anachronistic image of the IMF as a *de facto* reflection of the post-war order when the US was the unrivalled political and economic power could only be ameliorated through comprehensive structural reforms in line with changing global realities to allow more egalitarian representation and participatory decion-making at the Fund's governance platforms, which will contribute substantially to the restoration of its legitimacy.

The foremost issue that occupies top spot in most IMF governance reform proposals concerns a radical overhaul of internal decision making mechanisms, i.e., the reallocation of quotas and voting rights as well as the composition of chairs at the IMF Executive Board. Historically speaking, there have been numerous changes in the Executive Board and quota allocations to reflect changing circumstances, but in most cases these have been concluded through political bargaining among major global powers rather than technical calculations. Indeed, economic calculations were frequently used to justify critical decisions already taken in the light of political concerns regarding the allocation of Board seats to emerging giants such as China and Russia.[58] As far as the current conjuncture is concerned, the economic case for governance reform is crytal clear in view of the under-representation of the Asian economies in the IMF, which is reflected in loud calls for a more realistic distribution of quotas and Board chairs.[59] Politically as well, given the acute legitimacy crisis surrounding the Fund and the apparent danger that Asian countries could gradually drift away from the Fund in favour of regional arrangements, the conjuncture is ripe for a major procedural reform.

Under ever-intensifying lines of criticism, the Fund has accepted a two-pronged strategy in 2006 to update the quota allocations for several countries according to which ad hoc quota increases were endorsed for China, South Korea, Mexico and Turkey in view of their growing economic prowess. However, there are continuing concerns regarding the formulation of a systematic approach to quota reform and particularly alleviating the deepening democratic deficit at the Fund by giving more voice to borrowing countries in the developing world.[60] The massive discrepancy between quota allocations and votes of the low-income countries and industrialized countries fuel the ongoing legitimacy crisis pertaining to critical Fund decisions due to asymmetric

[58] Bessma Momani, 'Another Seat at the IMF Table: Russia's IMF Executive Director', *Paper presented at the Canadian Political Science Association Conference*, York University, Toronto, July 2006.

[59] David Rapkin ve Jonathan Strand, 'Is Asia under-represented in the International Monetary Fund?', *International Relations of the Asia-Pacific*, Vol. 3, No. 1, 2003, p. 1-28.

[60] Vijay Kelkar et. al., 'Time for a Change at the IMF', *Finance and Development*, (Washington: International Monetary Fund, 2005).

dynamics of representation.[61] Critics of the neoliberal paradigm argue that enhancing the voice of developing countries within governance mechanisms will lead to more realistic loan conditionality that focuses on long-term growth and structural transformation. It is also claimed that better representation at IMF platforms will allow developing countries to develop stronger lines of resistance against pressures for swift economic liberalization and insist on more diversified staff recruitment from the developing world to break their ideological chains.[62]

However, a retrospective look at the major reallocations of voting shares in the past reveals that these incidents were generally accompanied by considerable quota increases and in the current state of the global economy an overall increase in IMF quotas seems next to impossible. As any comprehensive effort to raise the voting rights and the Executive Board chairs allocated to low-income countries will require a relative reduction in the shares of other countries, this kind of a governance reform will be politically unacceptable for developed members of the Fund. History reminds us the intense efforts of Japanese policy makers over the course of the 1970s and the 1980s to considerably increase their quota allocation which met sturdy resistance from powerful shareholders wary of loosing their relative shares and privileges.[63] Yet, some analysts argue that European integration provides a unique window of opportunity to break the political deadlock and transform IMF governance procedures into a more egaliterian and representative structure in tune with the current shift of economic power to emerging markets. Proponents of a comprehensive reform in 'chairs and shares' indicate that owing to their economic and political importance in the early post-war period European countries are disproportionately represented at IMF platforms. The deepening of European integration and adoption of the Euro also strengthened calls for a more consolidated representation for the members of the Euroepan Union through a reduction in the number of their Executive Board seats, or according to a more radical proposal, a single Eurozone seat in order to allow better representation for emerging markets.[64]

There has been a mixed response from various European powers to these proposals with the European Central Bank and the European Parliament expressing their support on the grounds that consolidation of Eurozone chairs into one effective seat would enhance EU influence in the Executive Board and facilitate harmonization of Euroepan foreign economic policy.[65] Expectedly, there has been some European resistance as well, expressing concerns about a

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[61] To illustrate, Peter Evans and Martha Finnemore indicate that the combined votes of 80 low-income countries that qualify for the Fund's special financing stands at a mere 10 per cent, while the G-10 industrialized countries hold a whopping 52 per cent.

[62] Cyrus Rustomjee, 'Why Developing Countries Need a Stronger Voice', *Finance and Development*, Vol. 41, No. 3, 2004, p. 21-23.

[63] Yoshiko Kojo, 'Burden-sharing under US Leadership: The Case of Quota Increases of the IMF since the 1970s', in Henry Bienen, der., *Power, Economics and Security*, (Boulder: Westview, 1992).

[64] Lorenzo Smaghi, 'IMF Governance and the Political Economy of a Consolidated EU Seat', in Edwin Truman, der., *Reforming the* IMF *for the* 21*st Century*, (Washington: Institute for International Economics, 2006).

[65] Fritz Fischer, 'Why Europe Should Spearhead IMF and World Bank Reform?', *Europe's World*, Spring 2006, p. 42–49.

possible decline in the commitment of the region to the institution in case of a radical fall in its decision making powers. One way to ease European resistance could be changing the decision-making procedures at the Fund, and particularly the critical issues that require qualified majority voting (85 per cent). However, realistically speaking, it seems pretty clear that to reach a comprehensive deal to rearrange chairs and shares at the Fund will be politically very difficult. Therefore, the importance of formal reforms in the Fund's domestic governance structures should not be overestimated as the Board usually takes most of its decisions through consensus and the Managing Director generally takes a dominant role in Board discussions.[66]

The crux of the matter as far as the IMF reform is concerned undoubtedly relates to the attitude of the US administration as the founding member, largest shareholder and source of credit finance. The IMF has a special position among the Bretton Woods institutions that is deemed to closest to the American state depicted through such expressions as the "Wall Street-Treasury-IMF Complex".[67] Therefore, it is only normal that any kind of substantive change in the organizational structure, voting procedures or mission definition of the Fund must be first and foremost approved by American policy makers. As far as the current political and economic climate is concerned, there are various other governance reforms that could considerably enhance the Fund's legitimacy while also being easier to implement politically. The foremost step in this respect should be the modernization of the selection procedures of the Managing Director. Although other international institutions devised more transparent, merit-based and inclusive mechanisms for leadership selection, the IMF and World Bank have remained within the confines of the post-war gentlemen's agreement between Europe and the US that restricts the posts of Managing Director and President to their citizens. In the light of shifting power balances in the global political economy, it is time for both the US and Europe to forgo their privileges and open the leadership selection process to transparent and meritocratic competition.[68] Democratizing the selection procedures for the Managing Director and his First Deputy through an inclusive approach that embraces emerging economies will certainly enhance the normative integrity and legitimacy of the Fund.[69] Taking the recent political deadlock surrounding the selection of the Director of the World Trade Organization into account, a more controlled process of competition could better suit the IMF whereby minimum leadership qualifications are determined and qualified short lists are prepared by national governments without

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66 Ngaire Woods, *The Globalizers: The IMF, World Bank and the WTO*, (Ithaca: Cornell University Press, 2006), p. 210.

67 Robert Wade ve Frank Veneroso, 'The Asian Crisis: The High Debt Model Versus the Wall Street-Treasury-IMF Complex?', *New Left Review*, Vol. 1, No. 228, March-April 1998, p. 3-34.

68 For an analysis supporting this idea see Jonathan Ostry ve Jeromin Zettelmeyer, 'Strengthening IMF Crisis Prevention', IMF *Working Paper*, (Washington: International Monetary Fund, 2005), p. 17.

69 Michael Camdessus, 'International Financial Institutions: Dealing with New Global Challenges', *Speech to the Per Jacobsson Foundation*, Washington, 25 September 2005. Available online: http://www.perjacobsson. org/lectures/092505.pdf (Accessed on: 3 November 2009).

restrictions on citizenship. Yet, a common stance of the emerging powers against the US and Western Europe is of paramount importance to convince them to forgo their privileges.[70]

Another critical governance reform aimed at improving the legitimacy of the Fund and country ownership for its policy recommendations would be the formation of a non-resident Executive Board, or an 'IMF Council' that would comprise senior officials and politically effective figures from member countries. Currently, Executive Directors are perceived as bureaucratic figures who deal with micro-management of the Fund's daily activities, and as the employers of the IMF they do not have any political weight at all. A non-resident Board or a Council could assume responsibility for strategic decision-making and determining the future trajectory of the Fund with increased member country participation and ownership. Finally, reforming the procedures pertaining to the recruitment, training and deployment of IMF staff could improve the legitimacy of the Fund in the eyes of the developing world by giving priority to individuals with 'hands-on' knowledge of working in developing country contexts. This will also involve more active participation of civil society groups in formal IMF decision-making structures and increased governance transparency towards the NGO community through the immediate release of Executive Board votes and minutes by lifting the current time bound embargos.[71]

CONCLUDING REMARKS

The foregoing discussion makes it absolutely clear that the IMF as a standalone institution *will not* be at the helm of international financial architecture in the post-crisis conjuncture, which is certain to be characterized by a more fragmented and decentralized regime in line with the rise of new economic powerhouses. Yet, the Fund remains as *one of the* most important elements of the sophisticated regulatory assemblage that will steer post-crisis recovery in the global economy as it is a member of the G-20 and most of the other informal groupings while enjoying almost universal membership. Therefore, policy makers will always need the implementation capacity and extensive expertise of the Fund, especially when a clear road map for the reregulation of international financial markets is determined. However, despite its continuing policy relevance with the industrialized country elites, the IMF's ever-deepening legitimacy crisis continues to worsen, and there is no other way than profound governance reforms to alleviate that.

The unspecified nature of the IMF reform agenda which was drafted at the G-20 Meeting in Pittsburgh in September 2009 and left open ended up until the IMF-World Bank Spring Summit in 2010 initiated intense diplomatic wrangling

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70 Miles Kahler, 'Internal Governance and IMF Performance', in Edwin Truman, der., *Reforming the* IMF *for the 21st Century*, (Washington: Institute for International Economics, 2006), p. 265.

71 On detailed proposals to improve relations between the IMF and global civil society see, Ben Thirkell-White, 'The International Monetary Fund and Civil Society', *New Political Economy*, Vol. 9, No. 2, 2004, p. 251-270; Jan Aart Scholte, *Civil Society Voices and the International Monetary Fund*, (Ottawa: North South Institute, 2002).

during which calls for regional regulatory standards and financial unions were again loudly defended amid intense anti-IMF remarks. Despite the widespread consensus on the urgent need to start a comprehensive IMF reform program, there are serious political road blocks, particularly pertaining to essential governance reforms that would give more say to emerging markets in the composition and administration of key IMF platforms. From the outset, goals stated in IMF-World Bank meetings in İstanbul such as the expansion of the IMF's official remit to include all aspects of macroeconomic and financial policy, facilitation of flexible credit line arrangements to make massive foreign exchange reserves redundant, formation of multilateral supervisory and regulatory mechanisms, and realizing a substantial transfer of quota rights to developing countries seem exceedingly ambitious. Although even the specification of these goals as priority targets is commendable as a reflection of the importance attached to criticisms from developed and developing countries and an attempt to rescue some of the Fund's tarnished institutional credibility and legitimacy, there are clear political limits particularly with regard to the US veto and redistribution of "chairs and shares" in the IMF Executive Board. Therefore, despite calls by the IMF Director and the World Bank President for increased multilateral collaboration to increase the effectiveness of global governance mechanisms and alleviate negative repercussions of the crisis, it remains doubtful that the agreed upon reform program would meet the high expectations of the global pundits.[72]

In order to prevent further alienation of emerging markets, led by dynamic Asian economies, from the Fund and kickstart a politically applicable reform program with significant legitimacy-rectifying effects, the perfect starting point will be modernizing the selection procedures of the IMF Director and his First Deputy in a transparent, meritocratic and participatory way. This will require a common and firm stance by developing country leaders especially against Europe which will have to forgo its privileges in the governance of the Fund in the medium term.

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[72] http://www.imf.org/external/pubs/ft/survey/so/2009/NEW100609A.htm (Accessed on: 3 November 2009).

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