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A Soft-Core Public Choice Analysis of the International Monetary Fund

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I. Introduction

The operations of the Bretton Woods Twins – the International Monetary Fund and World Bank – have come under increasing public scrutiny in recent years. Indeed, criticisms from the far left and the far right have become so vehement that in 1999, the U.S. Congress almost failed to pass legislation to provide the U.S. share of an internationally agreed increase in IMF funding. In the spring of 2000, organizations that had protested against the World Trade Organization in Seattle turned their attention to Washington D.C. and attempted to shut down the high level meetings of the IMF's and World Bank's international oversight committees.

One common feature of most of the harshest critics from both the left and the right is a strong sense of certainty that how these international financial institutions (IFI's) operate is well understood. It has apparently given these critics little pause that the agreement between the left and the right that the IFI's are bad comes only because these two camps hold diametrically opposed views of what these institutions actually do. The left sees the IFI's as instruments of global capitalism, forcing excessively harsh austerity on poor nations, while the right sees them as examples of bureaucratic inefficiency that help bolster global socialism by providing funds to national governments and thus helping them to postpone necessary economic reforms.

As one turns to scholarly writing, the situation is not much better. Many authors seem anxious to jump as quickly as possible to policy conclusions and generally take as given some particular assumption about the behavior of the IFI's, often bolstered by an example or two. Again, however, while each such paper typically considers only one or two behavioral assumptions, across papers a substantial range of different assumptions about the positive political economy of the IFI's is made. Often the IFI's are depicted as being dominated by virtually autonomous international bureaucrats with little or no effective oversight. Alternatively, many in Europe, Japan, and the developing world view the IFI's as lackeys of U.S. foreign policy with little independence of their own. A third common view sees the IFI's as captured by the rent seeking activities of the major private financial institutions. The Marxists, of course, see these second and third assumptions as equivalent, with big capital running both U.S. foreign policy and the IFI's. Moreover, there are still a few who assume that the IFI's operate primarily according to their concepts of the global public interest.

Clearly, this wide range of views signals the need for positive political economy research. However, the number of studies which attempt to carefully develop and/or test hypothesis about the behavior of international financial institutions is distressing small, especially in contrast to the large literature which attempts to evaluate the effectiveness of IFI programs in various dimensions.[1]

This paper has the dual purposes of calling attention to this important lacuna in international political economy research and of offering a beginning effort toward filling this gap. Given the amount of literature which views the IMF through various narrow and often conflicting political economy lenses, what is most needed at the present time are efforts to develop a more comprehensive framework for evaluating the relevance of these various narrow perspectives. It is argued that while hard-core versions of public choice analysis such as Roland Vaubel's hypothesis of a budget maximizing IMF are examples of such single lens political economy perspectives, a soft-core public choice approach can provide a useful framework for synthesizing these narrower approaches. In contrast to the older grand theories approach to international political economy which emphasized the contrasting perspectives of realists, liberals, and Marxists, the soft core public choice approach draws heavily on recent developments in behavioral and new institutional economics and international and comparative political economy. Thus while it is based on the rational choice approach, it is skeptical of many applications of rational choice theory that assume high levels of information and foresight and ignore coordination and free rider problems within groups. It is more in sympathy with recent analysis in international political economy that emphasizes the roles of information, ideas, and institutions and focuses on the interactions among domestic and international considerations, rather than assuming the natural primary of one or the other.

Section II presents a brief overview of the traditional major political economy perspectives and how they tend to view the IMF. Section III then sketches out key elements of the soft-core public choice approach as a synthesizing framework, while Section IV gives illustrations of how this approach can be applied to the IMF. It is suggested that bureaucratic incentives for budget maximization play much less of a role at the IMF than in the typical government bureau, but that there are other possible sources of bias that are of serious concern. Section V offers concluding remarks on some of the policy implications of the analysis. It argues that while many needed reforms will be difficult to achieve, the soft core public choice approach offers a less pessimistic perspective on these possibilities than does the traditional hard core public choice approach.

II. Major Political Economy Perspectives on the IMF

Mainstream economists have traditionally adopted an optimal policy approach in which the range of activities a government or organization should undertake and the specifics

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[1] Exceptions include important work by Graham Bird, Tony Killick, and Roland Vaubel. Very recently there has been a substantial increase in quantitative political economy research on the IMF by political scientists. See, for

of the policies it should pursue are analyzed from the standpoint of economic optimization and market failure theory. This approach assumes a public interest based institution that analyzes the need to provide public goods, correct externalities, and compensate for missing or misperforming markets. In contrast with most economists' view that the market failures requiring government action are fairly limited, many on the left see massive market failure. Combined with a public interest view of government, this leads to criticism of the IMF for being insufficiently activist.

In contrast to these idealistic approaches, conspiracy theorists from the left see the Fund as an agent of the global capitalist class, serving special financial interests at the expense of the poor of the world. While looking on the Fund as doing harm, they see massive market failure and the need for major income redistribution from the rich to the poor. Thus they advocate radical reform of the IMF.[2]

From the right, applications of hard core public choice analysis also conclude that the IMF does harm, but for quite different reasons. This approach tends to assume perfect markets and rent seeking bureaucrats and special interest groups. From this perspective the Fund is unnecessary, except as a welfare agency for economists, and should be abolished.[3]

Quite different traditions also accompany views on the effectiveness of institutions and organizations. The optimal policy approach assumes an autonomous government that effectively implements policy. Critiques from the left tend to see the IMF as all powerful from the standpoint of imposing its will on poor countries, but as very weak from the standpoint of resisting pressures from capitalists' special interests. Hard core public choice

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example, Gould (2000), Stone (2000), Thacker (1999) and Vreeland (1999).

[2] See, for example, Danaher (1994) and Honeywell, et al (1983).

[3] See, for example, Bandow and Vasquez (1994). Another useful collection of critiques from the right combined with defenses from the middle is presented in McQuillan and Montgomery (1999).

analysis from the right typically sees the Fund as having a great deal of bureaucratic autonomy from political oversight, but in some versions as being subject to considerable pressure from special interests, typically the financial sector and/or US policy officials. While the IMF is viewed by many critics as autocratic and undemocratic, others see it as a lackey of U.S. foreign policy. And while the idealist tradition in the international relations literature sees international organizations as powerful mechanisms for promoting good, realists see them as having little effect.[4] Neoliberal institutionalists take an intermediate view that institutions can help promote international cooperation in some instances, but that the process is not an easy one.[5]

There is indeed considerable disagreement among commentators about the effectiveness of IMF programs. While popular criticisms from the left fault IMF policy conditionality for its excessive harshness, most systematic studies find that the ability of the IMF to enforce its conditionality has been quite weak.[6] Indeed, it has become common for critics on the right to argue that the typical effect of IMF programs is to delay rather than promote stabilization and liberalization.[7]

III. The Soft Core Public Choice Approach

The approach advocated in this paper is a middle of the road synthesis of elements of these different approaches, a soft rather than hard-core public choice approach if you will.[8] It

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[4] For discussion of these perspectives, see Dillon, Ilgen and Willett (1991).

[5] See Keohane (1984). Baldwin (1993) provides a useful collection of recent contributions to the debate on these issues.

[6] See the analysis and references in Bird (1995) and (1996), Killick (1995), (1996), and (1998), Krueger (1998), and Schadler et al (1995). A more favorable evaluation is reached in Ul Haque and Kahn (2000).

[7] As Krueger (1998) notes, such strong negative statements are usually based on a few anecdotes, not systematic studies. Still this is an area that deserves much more research.

[8] For a more general discussion of the public choice approach and its relation to other major approaches to the political economy of international economic relations, see Willett (1995) and the references therein. See also Gilpin's contribution to this volume.

recognizes both market and government failure but sees neither as all pervasive. It envisions an IMF dominated by officials who are neither saints nor sinners. They seek to do good, but are not entirely immune to bureaucratic incentives and external pressures. This approach sees governments as typically facing both domestic and international pressures, but also having some scope for autonomy, the magnitude of which varies over time and across countries and issues in systematic ways that are subject to analysis. It also recognizes the scope for bureaucratic politics and sees domestic pressures coming from both the general public and special interests.

Such public choice analysis stems from rational choice theory, but unlike many of the formal game theory applications of rational choice theory, it focuses on the costs of acquiring information, the difficulties of understanding complex situations, and the coordination and free rider problems that occur where the number of actors involved is large. Thus it helps explain why small well-organized groups can often win politically over the interests of much larger but unorganized groups. Public choice analysis also emphasizes how even where the median voter is dominant, she may be rationally ignorant, thus giving rise to political pressures for political business cycles and other policies that create economic instabilities and inefficiencies.

While certainly favoring democracy as a fundamental value, public choice scholars are skeptical of prescriptions of more democracy as the answer to all economic ills. They recognize the validity of rational expectations arguments that there will be learning behavior on the part of the public that will tend to diminish the incentives over time for governments to pursue perverse policies, but view this process as being much weaker than many rational expectations advocates.

Likewise, the public choice approach sees much less scope for a diffuse public to adapt strategic policies to sanction governments than have many recent game theory applications. Public choice analysts usually view the political process as operating with much less foresight than have many recent rational choice game theory applications. While many hard core rational choice modes assume that all relevant actors understand the true structures of the games they are playing, the soft core public choice perspectively emphasizes informational complexities, the role of uncertainly, and the role of ideas and differing mental models in explaining behavior.[9]

With respect to the characterizations of the environment faced by the IMF, a public choice perspective has a number of important implications. It suggests that even good governments may behave in bad ways and therefore we need to take seriously the issue of imposing appropriate disciplines over some aspects of government behavior. Note that this perspective even handily identifies failures in both voting and market mechanisms for providing governments with the incentives to adapt the correct polices.[10] It sees bounded rather than unconstrained rationality operating in both agendas.[11] Thus it helps explain why governments so often fail to take policies in time to prevent crises and provides a rationale for an organization like the IMF to help prod countries to adopt better economic policies and to help deal with crises when they do occur.[12] This perspective also suggests, however, that the IMF is itself unlikely to operate ideally. This we must deal with a world in which markets,

[9] For a discussion of these contrasting approaches to the issue of international policy coordination, see Willett (1999a) and on the role of different assumptions about correct economic theory in recent debates about the IMF, see Willett (2000d).
[10] Of course the concept of correct polices is far from unambiguous. For the purposes at hand, it might be thought of as the policies that would be favored by the fully informed median citizen. On these discipline issues, see Willett (2000a).
[11] On bounded rationality, see the contributions by Odell in this volume.
[12] Again, see Willett (2000a).

national governments, and international organizations are all three at times subject to imperfections.

Turning to the behavior of the IMF the soft public choice perspective sees it as an organization that is likely to have some internal bureaucratic problems and that while having some scope for autonomy is also subject to some degree of formal political oversight by its membership and informal pressures from the major powers, client governments, and special interests such as multinational banks. Thus while some specific hard core public choice applications will focus on just one of these modes – such as the IMF as the largely unconstrained international bureaucracy perceived by many on the right in the US Congress – the logic of the public choice perspective as a framework that encompasses many narrower specific theories or models should lead one to take a broad view of the considerations relevant to analyzing the political economy of the IMF. This of course doesn't mean that every analysis should try to cover everything. That's impossible, but analysts should try to be clear when they are dealing with only one of a number of potentially important aspects. All too often the impression is given in papers that the aspect being emphasized is the only one of major importance. This problem of single factor blinders has been much too common in both the public choice and the international political economy literature.

Just as international relations scholars differ in the emphasis they place – both positively and normatively – on the relative importance of power versus plenty and of plenty for the general public versus special groups, so too do public choice analysts disagree about the relative importance of the objectives pursued by actors in the public area. The natural starting point for economists is to assume that economic interests matter most, and for domestic political scientists is that reelection, matters most. In both fields, there has been heated battle over whether ideology may also be important. Hard core public choice analysts are less sympathetic to the inclusion of the importance of ideology that are those of a softer persuasion. Likewise soft-core adherents are not as likely to throw out public interest motivations as completely. As will be discussed below, much can be learned from starting with the hard-core assumption that IMF bureaucrats primary objectives is budget maximization. The soft-core perspective argues that analysis should not stop here, however. In some cases the incentives for budget maximization may be low and other objectives may be of much greater importance.

The public choice approach also emphasizes that its not enough just to figure out what is the best economic policy (difficult as this may be). One must also worry about the political economy of implementation and the effectiveness of policies and institutions. It stresses the need for careful analysis of governance and influence structures, recognizing the need for attention to informal as well as formal procedures. It acknowledges that configurations of effective decision making power can vary greatly from one type of case to another. The soft public choice approach rejects both the extremes that institutional structures don't matter and that they are fully effective.[13] It argues that such questions require careful case-by-case analysis of effects on incentive structures. It is quite kindred in spirit to neoliberal institutionalism, but focuses on the role of domestic as well as international considerations.

There is, of course, not a clearly defined dividing line between what I am terming hard and soft-core public choice choices. They share much in common and many studies would be hard to classify as falling into one category or the other. In my terminology exclusive emphasis on anyone specific public choice theory would usually qualify as hard-core, while consideration of multiple influences or specific theories would be soft-core. Thus the soft-core version emphasizes public choice analysis as an approach. The soft-core approach is willing to entertain a broader range of objectives for actors, a broader range of actors as being relevant to any particular analysis, puts greater emphasis on the importance of different mental models, and is more cognizant of uncertainties about the ‘correct’ economic and political models. Thus to critics, the soft-core approach will appear to be too wishy washy, while to supporters it is seen as being more realistic.

Soft-core public choice analysis need not be in fundamental conflict with the optimal policy approach. Indeed, the use of public choice for normative policy analysis often begins with the optimal policy approach to identify the agenda for possible desirable government actions. The public choice approach is wary, however, of jumping directly from a finding of market failure to advocacy of government action. Besides emphasizing the traditional economists’ concern with the technical feasibility of implementing welfare enhancing policies, it also considers the political feasibility of adopting these policies and highlights the danger that government actions may be diverted to other purposes such as rent seeking.

Some have viewed public choice analysis as being inherently conservative or anti government.[14] This is not so. Being realistic about the difficulties of policy implementation can only make for more effective policy. Recognizing that government officials may be subject to pressures and temptations is not to insult their character – it is only to recognize that they’re human. If a situation is heavily politicized then it is folly to advocate a policy that can only be implemented effectively in a politics free environment.

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[13] See, for example, Willett (2000e).

[14] See, for example, the contribution by Gilpin in this volume. It is true that many of the most important contributors to the development of public choice have been to the right on the political spectrum, but there have been important counter examples such as Kenneth Arrow and Mancur Olsen.

Of course the soft public choice approach has a serious shortcoming in comparison with many of the other political economy approaches discussed above. It does not offer easy answers. It is a framework rather than a specific theory. It is in effect a broad eclectic approach to political economy that sees value in many different ways of gaining knowledge. It sees the tracing out of the implications of a narrow set of assumptions to be quite valuable, but it is hostile to the common tendency to over generalize from such types of analysis. It argues that genuine testing must attempt to discriminate among alternative hypothesis, not settle just for evidence that is consistent with one's favored theory. It does not offer quick easy conclusions that apply to all situations – either with respect to diagnosis or prescription. It seems possible, however, that this seeming disadvantage is in fact its greatest advantage.

IV. Applications to the IMF

Public choice analysis of the IMF began with an important series of papers (by Roland Vaubel [1986], [1991], and [1996]), Vaubel developed a public choice analysis of the tasks likely to be given to international organizations and applied his analysis to the IMF and World Bank. In these latter efforts, he makes the common public choice assumption that "Bureaucracies are interested in power, prestige, and amenities. To achieve these objectives, they try to maximize their budget, their staff, and their independence" (1996, p. 195). However, another important contributor to the development of public choice analysis of international organizations, Bruno Frey (1997), argues that "The public choice literature is rather mute on the question of how employees in an international organization use the leeway accorded them" (p. 120) and offers the suggestion that "international bureaucrats pursue those policies that give them most prestige and influence within the reference groups with which they are connected" (p. 121).

I believe that Frey's call for greater study of the objectives pursued within international organizations is well taken. Vaubel is able to use his hard-core budget maximization assumption to explain a number of important aspects of IMF behavior that he argues are at variance with public interest interpretations. In some cases, however, the evidence he presents is equally consistent with public interest interpretations. For example, Vaubel explains the IMF's penchant for discretion over rules in terms of bureaucratic interest. If one adheres to monetarist or new classical macroeconomic views than indeed this is a clear test of bureaucratic versus public interest objects. If one adopts a Keynesian macroeconomic perspective, however, then one cannot discriminate between the two hypotheses on this issue. They are observationally equivalent.[15]

Another reason for needing to extend Vaubel's analysis is that even where the evidence does clearly conflict with a public interest perspective, there may be other reasons than Vaubel's for this to occur. Depending on the reasons for divergence from public interest behavior, different reform strategies might be suggested. Furthermore, the prospects for effective reforms may also be affected by the reasons for the observed behavior.

There is rather widespread agreement that at least at times the IMF has suffered from tendencies for loan pushing and insufficient enforcement of loan conditionality. Such behavior is not consistent with the saintly public interest view. Hard and soft-core public analyses view this problem somewhat differently, however. In Vaubel's hard-core analysis, loan pushing by the IMF is seen as a result of budget maximization objectives. An alternative explanation, however, is that IMF staff's career advancement may be put at risk if they lose access to high level national officials in the countries they monitor. Their ability to impede

[15] For further discussion of Vaubel's analysis, see Willett (2000e).

access in turn gives national officials leverage to minimize criticisms and to secure continued financing. The problems with such perceived incentives for IMF staff to not rock the boat are discussed in the recent IMF external review of its surveillance policies (IMF 1999). Once highlighted the problems of loan pushing are likely to be much more amenable to correction by altering incentive structures within the Fund if they are due primarily to soft core considerations, rather than to hard core budget maximization objectives.

In an earlier analysis I argued that the budget maximization analysis has a low degree of applicability to national monetary policy making at a relatively independent central banks and suggested that a softer public choice approach that focused more on the external pressures on the monetary discussion makers would prove more fruitful.[16] I would expect budget considerations to be more important at the IMF than at national central banks, but would not be surprised to find that for top IMF officials they are a relatively low priority.[17] An able staff is helpful for monetary officials to accomplish objectives of prestige and influence reputation with relevant peer groups, but this staff need not be a very large one. At the IMF, the management and top bureaucrats have little incentives to hold down salaries and indeed Fund officials are extremely well paid, but top IMF managers would seem to have relatively low personal interest incentives to greatly expand staff size to increase their prestige or chances for advancement.[18]

My analysis was in the spirit of Chant and Acheson (1972) and Acheson and Chant (1973), who provided the first explicit public choice analysis of the objective functions of monetary authorities. Assuming that central bankers' primary goals were prestige and self-

[16] See Willett (1990).
[17] See Willett (2000e).
[18] The budget maximization assumption has come under general attack in the recent literature on bureaucracy. For valuable reviews, see Borcherding and Khursheed (1998), Moe (1997) and Wintrobe (1997).

preservation, these papers helped explain a number of aspects of central bank behavior, especially the emphasis on secrecy.

The soft-core public choice approach should not be taken as totally optimistic or a half brother of the public interest – optimal policy approach. It does grant that there can be a substantial public interest component in the utility functions of many officials, but also recognizes that the human animal has become quite adept at convincing itself of the widespread coincidence of private and public interests. Even assuming away greed and major character failures, there are numerous sources of bias to which all but saints may be susceptible. Let us consider three.

One is that humans tend to respond to lobbying pressure. Thus if most of the "advice" that senior officials are getting is from a few particular groups such as selected national policy officials and the financial community, then these points of view are likely to help shape the officials' own perceptions. Personal threats and bribes are not required. A second powerful motivation is freedom to do one's job. Thus officials will typically prefer discretion over rules and prefer to minimize the monitoring of their actions. A third motivation is the fear of failure and desire to minimize criticism.

Motives two and three – desire for freedom of action and dislike of failure or criticism – combine to yield a preference for lack of transparency in some important areas. This has been a common characteristic in national central banks as well as the Fund. Of course there are quite valid arguments why complete transparency of discussions of monetary policy making and IMF programs is not desirable. A balance must be found. The point from public choice analysis is that if left entirely to themselves, senior officials would likely have a human tendency to draw the line at less transparency than would the well informed impartial spectator. Lack of transparency has indeed been a major source of criticism of the IMF, although strong public pressure from the U.S. Congress and others in recent years has helped induce a movement toward substantially greater transparency at the Fund.

Fear of failure also suggests that government officials will in general have a tendency to want to over insure against crisis.[19] Thus we would expect the management of the Fund to prefer to err on the side of quota increases and IMF packages that were too large rather than too small. This would also tend to bias Fund officials against pulling the plug on programs quickly enough when compliance has been unsatisfactory and to agree to initiate programs even though the odds for success are not high.[20]

These types of policies have the common feature that from an exclusively short time perspective, the benefits of implementing or continuing a program will exceed the costs, but that in the process moral hazard incentives will be increased and the prospects for future crises worsened. When one has operational responsibility for the short run, it is very hard to give enough weight to the long term as any dieter knows only too well.

The same type of difficulty applies to proposals that the IMF go public much more frequently when national officials repeated failure to heed its warnings. This could indeed unleash an immensely powerful weapon – speculative capital flows – against recalcitrant governments.[21] It is hardly realistic, however, to expect the IMF to tilt more than modestly in this direction unless we replace human officials with robots or make substantial changes in the incentive structures that they face.

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[19] See Amacher, Tollison, and Willett (1975).

[20] The Fund has demonstrated considerable willingness to pull the plug on programs, at least for countries without strong geopolitical significance. For example, in a sample of 45 programs reviewed by Schadler et al (1995), 28 were canceled for noncompliance. This certainly falsified the extreme view that the Fund has made itself a helpless hostage to host countries. Often, however, the IMF would reinstate programs without sufficient evidence that policy compliance was likely to be better in the future.

[21] See, for example, Eichengreen (1999).

V. Concluding Remarks on Policy Implications

The extent to which the hard core or soft core public choice analysis of the IMF is more accurate has important implications both for the best strategies for attempting to reform the IFI's and for the likelihood that reform efforts will be successful. One of the banes of public choice scholars is that the same types of analysis that identify possibilities for improvements in public policy also usually suggest that it would be extremely difficult to get the called for reforms through the political process.[22] To the extent that the soft core approach is relevant, however, the chances for reform will often be substantially enhanced. In these circumstances the spotlight of public opinion can have much more powerful effects.

To help correct possible imbalances in external influences on the IMF, a first step would be to evaluate whether there are important voices that at present have too little or too much access. Then one can begin to consider how such imbalances might be reduced. In approaching this question it is important to recognize that the most important question is not what groups lack physical access, but rather what major interests are left out or are seriously under represented in the policy process. For example, because there is a negative rather than positive long run trade off between inflation and growth,[23] there is likely little difference of long run interest between the major commercial banks and the typical citizens of developing countries with respect to the goal of long run macro economic stability.

For issues of debt renegotiation, however, there is a substantial difference of interest. The same would hold with respect to issues of moral hazard. Thus the public choice perspective raises the questions whether the lack of enthusiasm in official circles for new

[22] See, for example, Tollison (1997).
[23] See, for example, Sarel (1996) and Burdekin, et al (1995).

mechanisms for the orderly workouts of bad debts after crises may not be due in part to excessive attention to the views of the financial sectors in the lending countries.[24]

Here the Fund has taken public positions on the need for greater financial sector burden sharing that are quite at variance with the positions of the major financial institutions. This clearly demonstrates that the IMF is not just a mouthpiece for these interests. Relatively little action has been taken, however, so conspiracy theorists could interpret the IMF position as a clever subterfuge to give the IMF a false appearance of legitimacy and independence.

In addition to the financial sector and governments in client countries, the other most likely candidate for excessive influence is the governments of the major industrial countries, especially the United States.[25] A prime example here is the disastrous loan to Russian in 1998. Contrary to the hard-core loan-pushing hypothesis, numerous interviews with Fund officials suggest that the IMF was very reluctant to make this loan and did so only after considerable political pressure from the governments of the major industrial countries.

This pressure is easily explained in terms of standard public choice analysis. These governments wanted to make loans to Russia on geopolitical grounds, but they didn't want to go to their legislatures to ask for tax funds. There was little political support for such measures (except from the financial sector) so the leaders would have had to use up a good deal of political capital. Far better from the standpoint of short-term political popularity was

[24] Note, however, that within the U.S. government there was considerable hostility toward the New York financial community in the early post war period. In the negotiations on the establishment of the post war international monetary system, and the IMF neither of the major participants, the American and British governments, catered especially to the national financial community. See Henning (1996). While this tradition continues to be honored by some populist legislators, relationships between the executive branch and the financial community have become much closer over time and Henning concludes that, "Without the active support of the bankers, it is doubtful that there would have been a Fund quote increase in the final half of the 1980's," pp. 180. Many recent observers have assumed that the IMF has been captured by the financial interests of the major industrial countries, witness the frequent labeling of the IMF during the international debt crisis of the 1980's as the bill collector for the commercial banks and Jagdish Bhagwati's (1998) recent polemic against the Wall Street Treasury Complex. Other discussions of banking influence include Cohen (1982), Frieden (1987), Kapur (1998) and Pauly (1997).

to fund aid to Russia on the cheap by using the IMF. The long run cost of this strategy in terms of further damaging the credibility of the IMF was likely considerable,[26] but this carried little weight in the classic benefits now, costs later political incentive structure.

Of course identifying potential biases is much easier than correcting them. Still the effort is worthwhile. Increased awareness of such potential biases may in themselves have some effect. There has certainly been a substantial increase in the transparency associated with IMF programs over the last several years. There may also be methods of revising institutional structures and/or management practices to reduce some of the major problems of loan pushing and insufficient enforcement. Thus, for example, if Fund country officers are seen to be susceptible to partial capture by client governments and have become too cautious in recommending the termination of programs where policy conditions are being insufficiently met, then it would seem desirable to institute an internal review board that would vet the recommendations of missions before they were sent to the Executive Board. The same would hold with respect to crisis bailouts designed to limit contagion.

Indeed the Fund did create just such a mechanism some time ago in the form of its Department of Policy Development and Review.[27] However, discussions with IMF staff and the research studies on the enforcement of IMF programs suggest that the effectiveness of this review mechanism has been limited. While serving as a strong potential counter to possible biases of area department staff, the review department has little independence from senior management which still controls the career paths of the officials who staff the department. This suggests the possibility that the senior management of the Fund, even though they are

[25] See, for example, Kapstein (1994), Kapur (1998) and Thacker (1999).
[26] See, for example, Willett (2000b).

appointed directly by the IMF member governments for limited terms, may be a greater source of bias than the career staff. If correct, this would make it particularly useful to devise ways of strengthening the Executive Board relative to management and especially of limiting the management's ability to informally commit the IMF before discussions by the Executive Board.[28] In response to recent criticisms the IMF has announced that it will establish a new independent evaluation unit. The precise institutional structure of this new unit, not yet announced, will be of considerable importance, but this is certainly a desirable step. Also quite encouraging is the attitude taken by the new Managing Director, Horst Köhler, in support of rolling back the huge amount of mission creep that had worked its way into the IMF's programs of policy conditionality. Köhler's predecessor, Michel Camdeseus, had been a strong defender of mission creep against a wide array of criticisms.[29]

The considerations discussed here suggest that despite the problems of political manipulation, giving the Fund management complete discretionary autonomy would likely not be a good idea.[30] On the other hand, there is a strong case for giving the IMF more protection from short run political pressures along the same line as the case for independence of national central banks. The governance structure of the IMF is now under debate, with the French pushing for greater political oversight through a strengthening the role of the ministerial level Oversight Committee relative to the Executive Board, which is staffed by

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[27] The Research Department also plays such a role to some extent. Policy Development and Review was not started from scratch, but rather was based on the long standing Department of Exchange and Trade Relations, which had been the defacto coordinating group for the area departments.

[28] Engelen (1998) suggests this has been a problem. There have been suggestions that the Executive Board has tended to play too passive a role in setting the IMF policy. The desirability of upgrading the seniority and effectiveness of the IMF's Executive Board is one of the major recommendations of the Bretton Woods Commission (1994).

[29] See, for example, Willett (2000c).

[30] For a specific proposal to give the Fund much greater independence see De Gregorio et al (1999).

lower level political appointments. An uncharitable interpretation of the French motivation, however, is to develop a stronger political counterweight to the influence of the US.

So far, there appears to have been little discussion of what kinds of principles should guide discussion of the Fund's governance structure. An important question is to what extent do the arguments for central bank independence in a domestic context argue for autonomy for the IMF? The recent trend in thinking by scholars working on central bank independence and the tradeoff between autonomy and accountability has been to reject goal independence for the central bank but to favor policy independence to meet goals that have been determined through the political process and to provide mechanisms for sanctioning the bank if there are sufficiently great deviations from meeting these objectives. Where there is a single, reasonably quantifiable objective, this approach seems quite attractive, as with the inflation target approach of the Reserve Bank of New Zealand. It is unclear, however, to what extent such an approach would be applicable to the more complex objectives of the IMF. The governance principles for the IMF are clearly an important topic on which the literature on public choice and constitutional political economy should be highly relevant.

Much harder to tackle are problems of the use of the Fund by the major powers for political purposes. Even here, however, there may be some basis for a little optimism. Despite the widespread criticisms (for opposing reasons) from the far left and right, in the words of Dave Hale (1998), the IMF is needed “now more than ever.” It is in the longer-term self-interest of the major powers not to undercut the effectiveness of the IMF. Of course, it is a pipe dream to think that the IMF, any more than national central banks, can be fully depoliticized. But as has now occurred in central banking legislation in many of the industrial countries, there is some hope that governments might be willing to lengthen their time horizons and embrace approaches that stress medium term stability over short term expediency. Governments' willingness to rise to such occasions is, of course, in quite scarce supply, but the soft core approach suggests that sometimes it can happen.

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