

Imf: theories in international relations



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The first step on analyzing the character of the IMF itself and its behavior when it comes to granting loans should be to do so in accordance to the given commonly approved theories in the field of research on international institutions. The various theoretical approaches provide quite different assumptions and explanations which we are going to need, if the basic questions regarding the IMF shall be answered: What is the purpose of the institution? Why might states have an interest in that kind of organized cooperation at all? And what kind of behavior might we expect from the actors involved – first of all the United States..

To start with we shall take a look at the Neorealism's core assumptions, hypotheses and their applicability in case of the IMF. The five core assumptions (Bueno de Mesquita 2005, 126) define states as unitary actors which act rationally in an anarchic international system to maximize their own security. They are also striving for power as long as it is not threatening their security. Based on those assumptions the three hypotheses state that:

This point of view draws a rather pessimistic picture of the international system, where states fear each other and trust is hardly existent. You would therefore derive some expectations for an institution like the IMF. In an neorealist world international organizations are merely instruments of the most powerful states. Thus it would be hardly surprising if Superpowers like the United States are using the IMF to achieve their own goals and further increase their power.

“ By assuming anarchy, neorealism implies that organizations such as [...] cannot do much more than provide a means by which individual states can

coordinate their activities and help each other on a case-by-case basis.

Might, not law, makes right in the anarchic world in which states pursue their own national interest and not the objectives that international law and international organizations set as priorities.” (Bueno de Mesquita 2005, 129).

Adapted to IMF members we would expect them to focus on their personal benefit from that kind of cooperation and participate in it as long as they may expect relative power gains. With the exact distribution of power being uncertain states are furthermore supposed to gather around poles of power which – in terms of the IMF – can only predict an approximation toward the United States.

Considering the Neorealisms favor of bipolarity where two states hold most of the power, you could also expect the IMF to embody such a system. Yet the distribution of power inside the IMF’s decision making structures rather implies a multipolar system since there is not a single one among the 187 members holding 25% of the power. However you could speak of some sort of unipolarity with the United States holding 16.74% of the votes (IMF 2011a) followed by a huge gap until Japan’s 6.01% make up the second most powerful nation. Such being the case Neorealists would ascribe a sense of instability to the IMF resulting from their concept of uncertainty about power distribution. Nevertheless the IMF seems to be stable for over 60 years now. This phenomenon cannot be explained by the neorealist approach and typifies one of its main points of criticism. Another point leading to another approach suggests that the struggle for power in the sense of security is not always the sole ambition of states in the international system.

According to the IMF's own Articles of Agreement adopted in 1944 its main purposes are "to promote international monetary cooperation through a permanent institution" with goals like "the expansion and balanced growth of international trade" and the promotion of exchange stability (IMF 2011b). When it comes to loans and other forms of financial aid, Article I (V) explicitly states that those measures shall be taken in order to prevent member countries from "resorting to measures destructive of national or international prosperity".

With that goal declared – hindering states to act in ways that would entail disadvantages for others – we inevitably enter Keohane and Nye's Realm of Interdependence. Therefore using Keohane's different forms of international institutions the IMF can clearly be classified as an International Regime which are to be "institutions with explicit rules, agreed upon by governments, that pertain to particular sets of issues" (Keohane 1989, 4). There are stated rules in form of the already mentioned Articles of Agreement and the particular sets of issues would obviously be foreign exchange policy.

With that in mind we should continue to investigate the Neoliberal Institutionalism Point of View. The first core assumption that states strive for wealth just as well as they do for security seems to fit quite well. The second assumption characterizes power as non-transferable and issue-specific. Given the economic nature of the IMF and the way its member's quotas resemble their actual voting power this assumption also seems to apply since "Each member country of the IMF is assigned a quota, based broadly on its relative position in the world economy. A member country's quota determines its maximum financial commitment to the IMF, its voting power,

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and has a bearing on its access to IMF financing.” (IMF 2010). This states that power and influence inside the IMF is distributed depending on the nation’s economic power. According to the liberal concept that “ a nation’s power is assumed [...] to vary from one issue area to another, nations cannot easily capitalize on their influence over one set of problems to exert influence on a different set of problems” (Bueno de Mesquita 2005, 136) one would not automatically expect a powerful IMF-member to be able to use this power to influence decisions beyond the IMF’s field of activity. Whereas “ For Neorealists the opposite is true. Power in one domain is power in all domains because the resources that can be used to influence decisions in one area can serve as the basis for tacit or explicit threats in other areas.” (Bueno de Mesquita 2005, 136).

Another assumption of the (Neo)liberal approach states that the international system is characterized by the already mentioned interdependency and collective action problems. The latter “ arises when an international organization or regime provides public, or collective goods, which are indivisible and nonexcludable” (Bueno de Mesquita 2005, 137). To which extent or whether at all financial aid measures by the IMF can be seen as such, remains to be examined. Yet the general benefit from a worldwide monetary stability indeed seems to be of an indivisible and at least for the member states nonexcludable.

Further according to Keohane the IMF actually seems to be some kind of paragon for an “ organization that sets rules and standards to govern specific sets of activities” as it became “ the centerpiece of efforts by the major capitalist democracies to regulate their monetary affairs” (Keohane

1998, 84) already by the 1960's. When asking for the motivation of sovereign states and the reasons why they should cooperate channeled through institutions at all, he provides a simple answer for the IMF: Triggered by "the exchange rate and oil crises of the early 1970's" even economic superpowers like the United States "realized that global issues required systematic policy coordination and that such coordination required institutions" (Keohane 1998, 84-85). The IMF itself claims this insight to have occurred even earlier by defining its original aims: "The founders aimed to build a framework for economic cooperation that would avoid a repetition of the disastrous economic policies that had contributed to the Great Depression of the 1930s and the global conflict that followed." (IMF 2011c). Therefore the main reason in participating in the IMF actually seems to be overcoming the economic interdependency in a globalized world.

As the main promoting factor leading to cooperation in form of the IMF liberal theories file the United States as a hegemon. "Under hegemony, a hegemonic, or dominant state is willing to bear the extra burden of providing public goods, such as enforcing a free trade regime, in order that all may benefit." (Bueno de Mesquita 2005, 140). We would therefore expect the United States to be the actual provider of the stability granted by the IMF and furthermore act and function as "a central authority that is able and willing to enforce agreements and punish cheaters." (Bueno de Mesquita 2005, 140). Yet, as Bueno de Mesquita (2005, 141) claims, even liberal theorists acknowledge that a hegemon is rather unlikely to provide a public good, "when doing so is contrary to its interests." Hence, if the United

States shall be viewed as the IMF's hegemon today, there must be some benefit for it in fulfilling this role.

Michael N. Barnett and Martha Finnemore (1999) for example offer a more constructivist or sociological point of view, as they emphasize an autonomous character of International Organizations and institutions. One of their main arguments why we should see IO's rather as individual actors themselves than as mere frame for state's interests draws from principal-agent analysis. " The analysis is concerned with whether agents are responsible delegates of their principals, whether agents smuggle in and pursue their own preferences, and how principals can construct various mechanisms to keep their agents honest. This framework provides a means of treating IOs as actors in their own right with independent interests and capabilities. Autonomous action by IOs is to be expected in this perspective." (Barnett/Finnemore 1999, 705) With this approach we would expect from the IMF that its decisions are not naturally reflecting the states interests but having developed an independent existence following its own purposes. The occurrence of such principal-agent problems is quite conceivable considering the IMF's structure. Though every member state is represented in the highest decision making body, the Board of Governors by its minister of finance or the head of the central bank (IMF 2011d) yet most of the power is delegated to the Executive Board which only consists of 24 directors. Except the five countries holding the biggest shares of the votes – United States, Japan, Germany, France and United Kingdom – all other members (principals) are represented by common Executive Directors (agents) here which represent up to 22 different countries.

As fitting as the theory of interdependence might be regarding the IMF's purpose it can as well be used to level criticism against it. As Kenneth N. Waltz mentions in his work about Neo-Realism interdependence can as well be seen “ as an ideology used by Americans to camouflage the great leverage the United States enjoys in international politics by making it seem that strong and weak, rich and poor nations are similarly entangled in a thick web of interdependence” (Waltz 2000, 16)