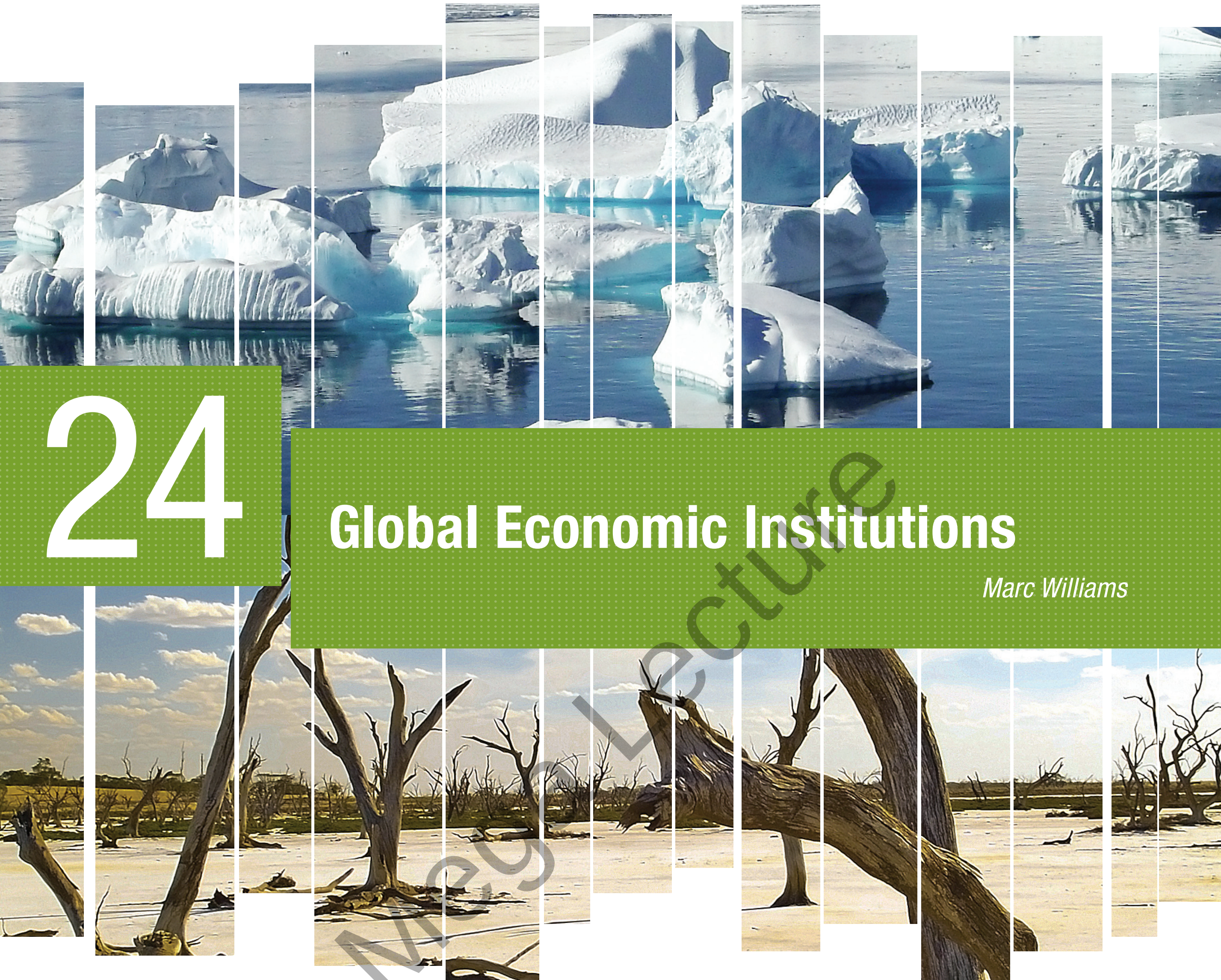

24 Global Economic Institutions

Marc Williams

Introduction

This chapter explores the role of three global economic institutions (GEIs) in contemporary economic governance: the **International Monetary Fund (IMF)**, the **World Bank** and the **World Trade Organization (WTO)**. As we will see there is no single vantage point from which to view these institutions or from which to assess their importance. In the first part of the chapter we discuss global governance and **globalisation** and examine competing perspectives on international organisations. Controversies over the role of the GEIs in the global economy have focused on the economic impact of their activities and their representative nature as institutions of governance. The second part therefore explores the historical evolution of the IMF, World Bank and WTO as they adapted to the challenges of an evolving global economy. In this section we will examine competing claims concerning their competence as economic managers. Recently, the legitimacy, accountability and representative nature of GEIs have been called into question. The final part of the chapter focuses on the debate over the **democratic** credentials of the GEIs.

In 2008 a financial crisis with its origins in the US spread to the rest of the world ushering in a global financial crisis with deep and profound consequences for most countries in the world. The Global Financial Crisis (GFC) of 2008–09 was the most severe experienced by credit markets since the Great Depression of the 1930s (Collyns 2008). The financial crisis in turn sparked an economic recession as economic output fell. It was apparent from the outset that individual nations could not return to economic prosperity through reliance on their own economic measures. In other words, both national and international action was necessary to repair the damage wrought by the GFC. Under these circumstances forms of global regulation and management came under intense scrutiny and the focus turned to the key institutions of global economic management with many commentators debating the relevance of the **Bretton Woods** institutions (the IMF and World Bank) to the twenty-first century economic landscape (Boughton 2009; Pisani-Ferry and Santos 2009). One major innovation in the area of global governance was the rise of the Group of 20 (**G20**), and while the implications of the shift from the **G8** to the G20 certainly marks an important evolution in the institutionalisation of global economic governance (Beeson and Bell 2009; Helleiner and Pagliari 2009), the global economic crisis served to highlight the continuing relevance of the Bretton Woods institutions and the WTO to contemporary global governance. This chapter focuses on the World Bank, IMF and WTO – arguably, the most important GEIs in contemporary world politics. In order to understand the activities of these institutions and the controversies surrounding them it is necessary to look at both their historical evolution and the various ways in which writers analyse international organisations.

Global governance and the global economy

There are, of course, many definitions of the term 'global governance'. For the purposes of this chapter governance will be taken to mean the sum of the many ways that individuals and institutions, public and private, manage their common affairs. (Commission on Global Governance 1995). Following from this definition of governance, global governance will be understood as the system of governance mechanisms (institutions, rules, **norms** and **regimes**) designed to regulate human affairs in the world (O'Brien and Williams 2010:

425). GEIs are key actors in global economic governance. Although the World Bank, IMF and WTO are now inescapable features of the international economic landscape, permanent global economic institutions are a relatively recent historical creation.

As World War II drew to a close the **United Nations (UN)** Monetary and Financial Conference was held in July 1944 at Bretton Woods, New Hampshire, US. This conference laid the foundations for the post-war international economic **order**. At the Bretton Woods conference two organisations were formed – the International Bank for Reconstruction and Development (IBRD), which was later called the World Bank, and the IMF. These two organisations were meant to be two parts of a tripartite structure of international economic organisations that would provide the foundations for post-war recovery and prosperity. The third part of the economic architecture was meant to be created at the Havana Conference on Trade and Employment in November 1947, but although the delegates agreed to form an International Trade Organization (ITO) this institution never came into existence since its charter was never **ratified**. With the failure of the ITO, the **General Agreement on Tariffs and Trade (GATT)** became a forum for the reduction of tariffs and for international trade policy until it was replaced in 1995 by the WTO.

The rationale for the creation of a **multilateral** economic order underpinned by formal institutions lay in three considerations. First, many policy-makers believed that one of the major causes of the war was the economic instability of the 1930s (Calleo and Rowland 1973: 35–7). The international economic system experienced a number of shocks in the inter-war period including the Wall Street Crash of 1929, the Great Depression of the 1930s and a breakdown in international economic cooperation. These policy-makers believed that the rise of **fascism**, Nazism and militarism in the 1930s was a direct result of economic instability and economic rivalry. They therefore set out to establish an economic framework that would provide a firm foundation on which to build a peaceful post-war world. Second, policy-makers believed that an open trading system and a stable monetary and financial system were essential prerequisites for the recovery of European economies devastated by the war. Third, policy-makers believed it necessary to preserve **national interests** while encouraging international cooperation. Thus, they established an economic system based on what has been termed 'embedded **liberalism**' – that is, compromise between **state** intervention to secure domestic markets and liberal economic principles (Ruggie 1982).

While there is no single answer to the question 'do we need global economic institutions?', since the end of World War II leading governments have answered this question in the affirmative. In the immediate aftermath of World War II the positive answer to this question was conditioned by their experience of the Great Depression, war and the challenge of reconstruction. In the contemporary world an answer framed in relation to globalisation also appears to be a positive one, given the reaction of governments to the recent GFC. While recognising that globalisation remains a contested term, with disputes taking place not only over its meaning but also over its very existence (Scholte 2005), no better concept exists that captures the profound changes that have taken place in economic, political, social and cultural dimensions of society.

Arguably, globalisation is not a recent phenomenon, but contemporary globalisation is distinct from other historical forms of the phenomenon. There are three key features of contemporary globalisation. First, central to contemporary globalisation is a 'widening, deepening and speeding up of worldwide interconnectedness' (Held et al. 1999: 2). Second, globalisation is a multidimensional affair covering economic, political, social, technological, ecological and cultural dimensions of social life. Third, globalisation is inclusive of both material and ideational/**normative** dimensions. Globalisation refers not simply to changes in material structures and processes but also to ideological and ethical issues. This three-fold approach suggests that globalisation is a set of processes rather than an end state, and highlights the contested nature of the debate concerning global governance as a response to the pressures created by globalisation.

Globalisation is an uneven process and therefore it poses both challenges and opportunities for the global economy and GEIs tasked with forms of economic management (Woods 1999: 25–34). On the one hand, global economic **interdependence** is a process which brings national economies closer together, thus requiring better coordination and harmonisation of policies (UNDP 2005). On the other hand, globalisation unleashes forces which appear to speed up the processes whereby the gap between winners and losers in the world economy widens more quickly (Amoroso 2007; Kacowicz 2007) and with more serious consequences than at previous times. GEIs are thus faced with the task of ameliorating these adverse consequences of globalisation. These challenges have been central to the higher profile that GEIs have experienced in the past decade.

Frequently globalisation is confused or conflated with a particular type of economic policy, namely **neoliberalism**. However, neoliberal economic policy is just one response to globalisation and not the only available mix of economic policies. Neoliberal economic policies, in this context, refer to policies supportive of market solutions to economic problems, increased emphasis on the private sector, a lessening of government intervention in the economy, and a reduction in welfare provisions. Many of the critics of the GEIs focus on their role as instruments in the spread of economic liberal ideas and strategies. In the 1980s and 1990s the World Bank and IMF adopted a neoliberal approach known as the Washington Consensus (see Box 24.1). While some analysts have discussed the emergence of a post-Washington Consensus (Öniş and Şenses 2005) in the wake of the Global Financial Crisis no consensus exists on the current economic philosophy of these organisations. But before we examine the contested record of the GEIs it is necessary to take a brief look at contrasting perspectives on international organisation, since assessment of the possibilities and limitations of GEIs is conditioned by the perspective held by the analyst.

BOX 24.1: TERMINOLOGY

The Washington Consensus

The Washington Consensus is a term coined by the economist John Williamson. It refers to a set of policies designed to foster economic development that had broad support among officials and economists in the US Government (especially the US Treasury), IMF and World Bank. Although Williamson's original thesis applied solely to Latin America the term has been given wider applicability. These policies included fiscal discipline (balancing budgets), liberalising trade, freeing exchange rates and interest rates, privatising state industries, deregulation, tax reform to broaden the tax base, redirecting public expenditure to increase economic returns and redistribute income, and securing property rights.

Perspectives on global economic institutions

While there are numerous questions that scholars and practitioners pose concerning the role played by GEIs in global governance, these can be seen to be variations on two central questions: Are GEIs important? And whose interests are served by GEIs? These two questions contain both positive and normative components. That is, they embrace issues relating to what has been accomplished by these organisations and also issues surrounding the goals or purposes of these bodies. Views about GEIs are related to beliefs about international cooperation and international organisation more generally (Pease 2006). Liberal **theories** have been dominant in approaches to thinking about international organisation because liberal theories take international organisation seriously (see Chapter 3). For liberals there are a number of core assumptions which lead them to think that GEIs are important. First, liberals believe that international cooperation is a rational response to an interdependent world economy (Rittberger and Zangl 2006: 16–20). Liberals believe that states are rational actors and they thus see GEIs as a rational response to the complexities of international economic transactions. No single state can secure its economic goals in an interdependent world economy, and therefore mutual vulnerabilities will lead states to create GEIs. Second, liberals believe international cooperation on the basis of reciprocity increases mutual gains for all parties (Karns and Mingst 2010: 37). Thus, GEIs can benefit all members since they promote efficiency and stability in the world economy.

While liberals provide positive answers to both questions, **realists** tend to take the opposite view. All forms of realism take the state as the basic and most important unit in international relations (see Chapter 2). Thus, from a realist perspective GEIs are only important to the extent that they serve the interests of the states which created them. Because international organisations are viewed from this focus on power realists will tend to argue that international organisations will reflect the interests of the dominant states (Waltz 2000: 26). Therefore, a GEI will serve the interests of the most powerful state in the organisation.

From a **constructivist** perspective (see Chapter 7) international organisations can be important and independent actors in international relations (Barnett and Finnemore 2004). Constructivists focus on norms and **identity** formation and from this perspective GEIs both reflect the normative consensus underlying their creation and influence their members through changing their beliefs and understandings and shaping their behaviour (Karns and Mingst 2010: 50–2). While there is no settled view on the interest served by GEIs the dominant liberal constructivist view focuses on the dissemination of liberal norms (Barkin 2003).

Critical Theory approaches to the global economy emphasise the nature of oppression and the struggle for justice (O'Brien and Williams 2010: 25). While there is no single critical perspective (see Chapters 4–7) it can be argued that critical approaches are united in an attempt to understand the roles that international organisations play in maintaining or challenging the **status quo**. Critical perspectives thus focus on the dominant interests served by international organisations.

Global economic institutions and the management of the global economy

This section presents a brief sketch of the performance of the three major global economic institutions. As mentioned above, different theorists will arrive at different conclusions about the impact of a specific GEI since there are no agreed criteria by which to measure the performance of the GEIs. Moreover, different approaches to international relations will emphasise different values. Is the key goal of global economic governance the promotion of **security** and stability (realism); efficiency (liberalism); equity (critical approaches) or **democracy** (liberal and critical perspectives)? Analysts who place emphasis on stability will differ in their assessments of the performance of GEIs from those who place greater emphasis on efficiency or equity. Of course, these goals need not necessarily be in conflict and a well-functioning governance system is likely to seek to achieve all of them. Nevertheless, in practice, it often proves difficult to reconcile the demands of stability, efficiency and justice in ways satisfactory to specific constituencies.

The International Monetary Fund

GEIs exist within a changing global environment and one measure of their success is their ability to adapt to change. In some respects the IMF has responded creatively to the challenges posed by a changing international financial order, but in other respects it has failed either to provide appropriate regulatory oversight or develop polices suitable for its membership.

Supporters of the IMF point to its changed lending portfolio as an example of its adaptability and continued relevance. Initially the IMF was essentially a short-term lending (12–24 month loans) institution providing loans through its Stand-by Arrangements. It has progressively expanded its lending role and developed lending facilities to cope with specific problems: for example, the Extended Fund Facility, established in 1974 for countries suffering serious balance of payments; the Supplemental Reserve Facility, devised in 1997 to provide short-term financing on a large scale; and the Compensatory Financing Facility, initiated in 1963 in response to pleas for special financial resources by countries experiencing **balance of payments** difficulties as a result of fluctuating commodity prices. The IMF was also at the forefront of adjustment efforts in the management of the 1980s debt crisis, in the transition to **capitalism** of the command economies of Eastern and Central Europe, and the search for solutions to financial crises (the Mexican crisis in 1994, the Asian financial crisis in 1997, the Russian crisis in 1998, the Argentine crisis in 2000–01 and the 2008–09 Global Financial Crisis). In the context of the GFC the G20 has underlined the continuing relevance of the IMF's role as a lender to emerging markets, a provider of loans to low-income countries, a framework for advocating fiscal stimulus and a key institution in the reform of the international financial system. This commitment has resulted in an increase in the IMF's lending resources by up to US$500 billion (International Monetary Fund 2010) through an injection of funds (under the New Arrangements to Borrow). Overall this has resulted in the tripling of the IMF's lending capacity to US$750 billion.

Although the IMF has clearly responded to a changing global financial system, many critics question the appropriateness of IMF polices and the continuing relevance of the organisation to a global economy in which global financial integration creates instability and the diffusion of financial autonomy to banks, **transnational corporations** and markets significantly weakens national monetary autonomy. There has been a long-running debate over the impact of IMF policies on recipient countries (Vreeland 2003; Williams 1994). As the Fund became more heavily involved in structural adjustment lending (see Box 24.2) following the onset of the debt crisis in 1982, the criticisms became more widespread. Essentially the critics argue that IMF policies have a negative impact on economic growth, result in adverse distributional impacts and lead to political instability. The IMF has argued that the overall record of its programs is positive and that the initial conditions in borrower countries have a significant impact on the success of adjustment programs. Moreover, it has progressively moved from the hard conditionality of the 1980s and 1990s to more varied and flexible forms of conditionality. In response to the GFC the IMF has promised greater flexibility in its loan programs. Despite these reforms the debate on the impact of its programs will continue. The second issue concerns the role of the IMF in stabilising the international financial system. While debate over the IMF's surveillance policies and its prescriptions to countries experiencing financial crises (Mosley 2004) has highlighted both the moral hazard of IMF intervention and the impact of its policy prescriptions, its very existence has also recently been called into question. The onset of the GFC exposed the limitations of the fund as a governance mechanism. The G20 (2009a), in admitting that 'major failures in the financial sector and in financial regulation and supervision were fundamental causes of the crisis', recognised the limitations of the IMF as a global regulatory agency and has proposed the creation of a Financial Stability Board (G20 2009b). Further issues relating to the governance of the IMF will be discussed below.

BOX 24.2: TERMINOLOGY

Structural adjustment policies

A typical structural adjustment package contains prescriptions leading to:

- devaluation of the national currency
- cuts in government expenditure
- reduction of the role of the state in production and distribution
- liberalisation of foreign trade
- price liberalisation and deregulation, and
- restructuring government expenditure through privatisation.

The World Bank

Like its twinned institution, the World Bank has shown a degree of flexibility and adaptability to a changing international economic order. The International Finance Corporation (IFC) was established in 1956 to promote private sector growth in developing countries through investing in private projects, supporting the growth of private capital markets and encouraging flows of domestic and foreign capital. The International Development Association (IDA), created in 1960, is the Bank's soft loan affiliate and provides loans to the poorest developing countries on very favourable terms. The Multilateral Investment Guarantee Agency (MIGA), established in 1988, aims to encourage the flow of direct investment to developing countries through the lessening of non-commercial investment barriers.

The World Bank has also adapted its approach to development over time. Since its early years the Bank has had four identifiable shifts in its approach to the financing of economic development. Its early lending programs focused on industrialisation and large infrastructure projects. A central belief at this time was that economic growth would trickle-down from rich to poor and thus no specific anti-poverty measures were required. Beginning in 1973 the Bank embarked on what became known as the Basic Needs strategy. The focus in this era was on poverty-oriented polices designed to meet the basic needs of target populations. While industrial projects remained heavily favoured there was increased funding of agriculture and the rural sector. The Basic Needs policy was supplanted by adjustment lending in 1980. The move to structural adjustment loans, which were the key feature of adjustment lending, saw a shift from poverty alleviation to one of improving the balance of payments and overall economic performance of client states (see Box 24.2). A renewed emphasis on poverty alleviation characterises the current Bank approach. The sustainable development paradigm has shifted Bank priorities towards governance reforms, an increased role for the private sector in development and a greater focus on poverty reduction (Pincus and Winters 2002). The current focus of the Bank is on achieving the Millennium Development Goals (MDGs) (see Box 24.3 and Chapter 27).

BOX 24.3: DISCUSSION POINTS

The Millennium Development Goals

Goal 1: Eradicate extreme poverty and hunger.
Goal 2: Achieve universal primary education.
Goal 3: Promote gender equality and empower women.
Goal 4: Reduce child mortality.
Goal 5: Improve maternal health.
Goal 6: Combat HIV/AIDS, malaria and other diseases.
Goal 7: Ensure environmental sustainability.
Goal 8: Develop a Global Partnership for Development.

While the impact of the GFC on developing countries is not uniform it is widely agreed that it has led to an increase in global poverty and makes attainment of the MDGs more difficult. A World Bank study estimated that there would be 64 million more people living in extreme poverty (less than $1.25 per day) by the end of 2010 (World Bank 2010). In response to the increased economic vulnerability faced by most of its membership the World Bank has significantly increased lending. In fiscal year 2009 the IBRD and IDA made commitments of US$46.9 billion, which was almost double the $24.7 billion in commitments made in fiscal year 2008. Overall World Bank loans, grants, equity investment and guarantees increased by 54 per cent between fiscal year 2008 and fiscal year 2009 to total $58.8 billion (World Bank 2009: 2). Apart from increased lending the Bank has devised new programs in response to the GFC. The Vulnerability Finance Facility (VFF) focuses on agriculture and employment and social safety nets; the Infrastructure Recovery and Assets Platform provides counter-cyclical lending to protect existing assets and future projects.

Nevertheless, the World Bank remains a deeply controversial institution. Supporters of the Bank contend that it provides developing countries with much-needed capital, and maintain that the projects it supports are vital in the fight against world poverty. In their view these resources provide important supplementary assistance for the governments of developing countries and enhance the perceived stability of the economy to international investors. Supporters of World Bank policies think that the conditions it attaches to its loans provide a framework of sound financial management for the governments of its borrower nations (Picciotto 2003). On the other hand, critics accuse the Bank of putting profits before people, and of distorting development (Cammack 2004; Caulfield 1996). To the critics these resources are often insufficient, inadequate and ineffective. They contend that the specific conditionality imposed by the Bank privileges external interests over those of the recipients and is focused on repayment of the loan rather than on improving welfare.

The World Trade Organization

Assessment of the World Trade Organization's (WTO) contribution to global governance has varied depending on the view taken of the organisation's ability to affect countries' trade policies and analysis of the beneficial effects of trade liberalisation. The WTO provides a complex framework for the organisation of international trade.

First, as an international organisation the WTO is primarily a legal agreement which provides a framework of rules, norms and principles to govern the multilateral trading system. The Global Financial Crisis resulted in the most severe contraction in world trade since the Great Depression (WTO 2010) and it was feared that rising **protectionism** would further constrain economic recovery. It can be argued that the existence of the WTO was instrumental in ensuring that a widespread return to protectionism was kept at bay. In support of the liberal trade order the G20 was quick to 'reaffirm our commitment to fight all forms of protectionism and to reach an ambitious and balanced conclusion to the Doha Development Round [of trade negotiations]' (G20 2009c).

Second, it is a forum for multilateral trade negotiations. The organisation, itself the outcome of a round of multilateral trade negotiations, presides over the process through which further trade liberalisation is achieved. Negotiations under the auspices of the WTO specify the principal contractual obligations determining trade negotiations and trade legislation, and the Trade Policy Mechanism facilitates the evolution of trade relations and trade policy through its surveillance of the policies of WTO member states.

Since its inception the WTO has presided over piecemeal liberalisation but has yet to oversee a round of substantial reduction in barriers to trade. The currently stalled Doha Round provides ammunition for supporters and critics alike. The critics argue that the failure to conclude the round shows the importance of the rich countries' interests in managing outcomes in the WTO. Supporters of the WTO argue that the stalemate is proof that a multilateral institution is necessary.

Third, the WTO through its Dispute Settlement Understanding (DSU) facilitates dispute resolution. The DSU provides the machinery for settling members' differences on their rights and obligations. For some this function is crucial because it contributes to the stability and further evolution of the world trading system, since liberalisation will not take place in the absence of effective dispute settlement procedures (Jackson 2008). For others, the dispute settlement procedures give authority to unelected judges to make decisions affecting the livelihoods of groups unrepresented in the process (Wallach and Woodall 2004: 239–61).

The WTO is committed to the promotion of a liberal trading order. Its policies are predicated on an assumption that trade is better than no trade, and that barriers to trade are harmful to national and international welfare. As a successor to the GATT the WTO widens and deepens global regulation of international trade and payments. It extends GATT disciplines into areas previously governed by protectionist devices in the post-war global trade regime – agriculture and textiles – and brings 'new' issues such as intellectual property rights and investment measures under regulatory control. For supporters the WTO provides a level playing field and thus can be effective in constraining damaging economic **nationalist** policies (Blackhurst 1997). Moreover, they emphasise the beneficial impact of trade liberalisation for all countries (Bhagwati and Srinivasan 2002). Critics of the WTO argue that major states dictate the rules of the organisation (Kwa 2003). Furthermore, they contend that further unfettered trade liberalisation can be damaging to poor countries (Chang 2005) and the environment (Conca 2000).

Legitimacy, democracy and global economic institutions

Like many organisations, GEIs have been the subject of intense debate concerning their democratic credentials, accountability and legitimacy (J. Glenn 2008; Woods and Lombardi 2006; Zweifel 2006). In this debate supporters of the status quo have attempted to defend the current arrangements against a wide variety of critics. In order to understand this controversy I will first outline the defence of current arrangements, followed by the arguments of the critics. The defence of the status quo can be called a statist approach. It begins from the assumption that the accountability of GEIs is situated with the state actors that constitute their membership (Keohane and Nye 2001). That is, multilateral economic institutions are accountable to their membership – to states and not to other actors in the international system. It follows that a GEI is legitimate to the extent that its members accept its authority.

On the basis of these assumptions the extent to which the World Bank, IMF and WTO are democratic institutions has been made the subject of three tests. The first concerns the extent to which the organisation is representative of the members of **international society**. At its simplest level representation therefore refers to inclusiveness of the membership. In this sense an international organisation is democratic if its membership actually covers all states that potentially have an interest in the selected issue-area(s), and an organisation is undemocratic if it deliberately excludes from membership states that meet the criteria for membership and have a legitimate interest in its activities.

Using these criteria the World Bank, IMF and WTO are democratic institutions, since all three organisations boast a wide membership (see Box 24.4). Not only are most of the world's states members, but in terms of the activities covered by these organisations no significant states are denied membership.

BOX 24.4: KEY FIGURES

Membership of the GEIs*

International Monetary Fund: 187 members.

World Bank: 187 members.

World Trade Organization: 153 members.

*As at July 2011.

Second, representation can be conceived as a process of fair decision-making. In this sense democracy refers to the decisional rules of an international organisation. The statist perspective rejects criticism of the weighted voting mechanism of the World Bank and the IMF. Statists argue that in a financial institution a weighted voting system is necessary to protect the interests of the major shareholders without whose contributions a pool of finance for borrowing states would not exist. With respect to the WTO the statist perspective contends that the consensus decision-making rules are ultra-democratic since every member country has a voice. The third criterion is that of transparency, and supporters of the status quo emphasise recent developments, especially at the Bank and the WTO, to increase access to information. They defend the necessity of secret negotiations and argue that further openness is the responsibility of national governments.

A number of critical voices have been raised in opposition to these arguments. They argue that in the contemporary world a focus on inter-governmental relations is too limiting since the forces of interdependence and globalisation have reduced the degree of autonomy and independence implied in the traditional statist concept of **sovereignty**. Globalisation, it is argued, poses fundamental questions for the exercise of global democratic governance. Critics reject the claim that these institutions are democratic because they are accountable to their member states. First, there are limitations on state sovereignty in the sense that the authority and power of national authorities is undermined by the activities of the GEIs. The conditionalities imposed by the World Bank and IMF and the expanded mandate of the WTO mean that national governments and their citizens are increasingly subject to new forms of regulation over which there is little direct control (Woods 2001: 88–90; Williams 1999).

Second, critics contend, it cannot be assumed that the decision-making structures are fully representative. The weighted decision-making of the World Bank and IMF results in a system in which poorer countries are inadequately represented (Woods 2003: 84–7). Moreover, the critics reject the argument that decision-making in financial organisations should reflect the interests of the most powerful. They argue that a fair decision-making system should take into account those most affected by the decisions taken. Furthermore, a restriction of decision-making to governments does not satisfactorily capture the range of stakeholders likely to be affected by the activities of the GEIs. Critics argue that the conventional answer that states represent their citizens and therefore the politics of GEIs reflect the interests of diverse groups in national society is no longer tenable (if it ever was), given the direct organising sub-nationally and transnationally of groups who believe that current state structures marginalise their interests (Williams 1999; 2005).

Furthermore, critics have argued that the GEIs are not sufficiently transparent either in terms of their decision-making – which is often conducted in secret – or in terms of the provision of access to information. This absence of transparency reduces accountability, since it limits public scrutiny of decision-making and curtails the potential effectiveness of specific GEIs by reducing public debate and input into policy-making.

The debate on the democratic deficit of the GEIs, which can be traced to the mid-1990s, was given increased political salience by the Global Financial Crisis. In one sense the GFC was perceived as a crisis of governance, and in that respect the issue of who controls the GEIs became a politically sensitive one. The ensuing debate exposed the hollowness of the statist defence of the status quo. It has been recognised that institutional effectiveness is linked to representation and accountability. In the IMF the Executive Board's Agreement of April 2008 on the reform of quotas and voice only entered into force on 3 March 2011, despite the political salience of the issue. The increased political salience of governance reform in the GEIs has not to date resulted in significant transformation. Moreover, the international discussions have been limited in nature. And finally, while the G20 has called for increased voice and participation of developing countries in the IMF and World Bank through increased voting power for these countries, it is also important to note that the G20 itself has limited legitimacy.

Conclusion

The activities of the International Monetary Fund, World Bank and World Trade Organization have far-reaching consequences for the livelihood of people around the globe. The IMF's macroeconomic policy coordination, crisis management skills and role in economic development have all sparked debate and controversy. The World Bank, as the world's leading multilateral development agency, has a crucial role to play in poverty alleviation. While the Bank has not been a static institution and has changed its priorities over time its credibility as a development agency remains in question. The creation of the WTO signalled a stronger institutional base for the multilateral trading system, but the tension between further trade liberalisation and sectional interests has stymied its ability to fulfil this role.

In respect of all three institutions persistent criticisms remain of their ability to contribute to stability, efficiency and justice in the global economy. In a very stark manner the Global Financial Crisis raised pertinent issues about the governance role of these institutions and brought to the forefront the dilemmas of reforming their internal governance structures to address the perceived crisis of legitimacy they face.

QUESTIONS

1. To what extent are global economic institutions indispensable pieces of global governance?
2. Why does governance reform in the IMF and World Bank matter?
3. Does the IMF still have an important role to play in the governance of the international financial system?
4. What are the key constraints faced by the World Bank in achieving its stated goal of poverty alleviation?
5. What conclusions can be drawn from the stalled Doha Round concerning the future of the World Trade Organization?

FURTHER READING

Lanoszka, A. 2009, *The World Trade Organization: changing dynamics in the global political economy*, Boulder and London: Lynne Rienner. Excellent introduction to the WTO and the global trade regime.

O'Brien, R. et al. 2000, *Contesting global governance*, Cambridge: Cambridge University Press. Detailed examination of the relationship between the IMF, World Bank, WTO and environmental, labour and women's movements.

Woods, N. 2006, *The globalizers: The IMF, the World Bank and their borrowers*, Ithaca: Cornell University Press. Examines the effects of IMF and World Bank lending in Africa, Mexico, and Russia.