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WORKING PAPER

Global Institutional Reform

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Tony Porter

Working Paper No.19

February 2007

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# Beyond the International Monetary Fund: The Broader Institutional Arrangements in Global Financial Governance*

Tony Porter

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* An earlier version of this paper was presented to the workshop, "The Reform of Global Financial Governance: Whither the IMF?" The Centre for International Governance Innovation, Waterloo, 10 June 2006.

## John English

EXECUTIVE DIRECTOR, CIGI

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Thank you for your interest,

John English

## Author Biography

Tony Porter is Professor and Chair of Political Science at McMaster University. Holding a Ph.D. from Carleton University, he has published numerous academic volumes, including: *States, Markets and Regimes in Global Finance* (Macmillan, 1993); *Technology, Governance and Political Conflict in International Industries* (Routledge, 2002); *Globalization and Finance* (Polity, 2005); and co-edited with A. Claire Cutler and Virginia Haufler, *Private Authority and International Affairs* (SUNY Press, 1999). In recent years his articles have appeared in *Review of International Political Economy, Review of Policy Research, Global Governance, Global Society*, and *Business and Politics*.

## Abstract

In recent years there has been an upswing in interest in the reform of the International Monetary Fund (IMF). In contrast to its earlier years, the IMF today exists in an international environment populated by a wide variety of public and private-sector international institutions that compete with and complement the work done by the IMF. A key factor in the IMF's performance and future prospects is its relationship with these institutions. This paper analyzes institutional developments in the IMF's environment, linking these with broader contemporary social trends, and drawing conclusions about the significance of these developments for IMF reform. These social trends include a shift from hierarchies to networks, a recognition of the socially-constructed character of knowledge and the growing importance of this knowledge relative to material resources, and a shift from a reliance on US hegemony to multilateralism. The paper argues that the IMF has taken some modest steps in its work to include these considerations and enhance its relationship with other institutions, but these elements need to be included in the process of IMF reform to a much greater degree.

## 1. Introduction

The character of the world of international institutions within which the International Monetary Fund (IMF) operates has crucial implications for its performance and future prospects. Since the IMF interacts with other international institutions, its potential and deficiencies are likely to be shaped by those interactions, perhaps even more than other factors such as those more exclusively internal to the IMF. If good substitutes for the IMF exist that can carry out its functions just as well or better, then preservation of the IMF becomes much less important. Alternatively, if the IMF can effectively enrol other international institutions in its own projects, then the IMF's power and influence will increase. As the IMF's Independent Evaluation Office noted "When the IMF was established, it was in some respects a monopoly or near-monopoly supplier of analysis and advice on international financial and monetary issues. This is no longer the case. The IMF's effectiveness now depends in part on how well it interacts with these other institutions, and how far it builds on and exploits its areas of comparative advantage."[1]

This paper seeks to understand this institutional environment and its significance for the IMF in two steps. The first is to identify general trends in the IMF's institutional environment that may have implications for the IMF. This includes identifying some very general trends, and then examining institutions other than the IMF that are involved in international monetary and financial matters, to see the degree to which these trends or others are present. The second step is to assess the degree to which the development of these institutions provides lessons for the IMF, and whether they compete with, or complement, the Fund. Part of this assessment

[1] IMF, "An Evaluation of the IMF's Multilateral Surveillance-Main Report" (Washington, DC: Independent Evaluation Office, International Monetary Fund, 28 February), 17-18.

involves considering the desirability of alternative institutional arrangements, taking into account the way in which the functions that have been carried out by the IMF are likely to be transformed.

The international institutions that will be examined are both public and private sector ones. Public sector ones include three types: (a) other formal global intergovernmental organizations such as the Bank for International Settlements (BIS), the Organisation for Economic Co-operation and Development (OECD), the World Bank, and the International Organization of Securities Commissions (IOSCO); (b) informal public sector groupings such as the G7, G20, the Basel Committee on Banking Supervision (BCBS), the Financial Stability Forum (FSF), the International Association of Insurance Supervisors (IAIS), and other Basle-based committees; and (c) regional groupings such as the European Central Bank, and the Chiang Mai Initiative. Private sector ones include (1) international private-sector associations directly or indirectly involved in financial rulemaking such as the International Accounting Standards Board (IASB), the ratings agencies, the Institute of International Finance (IIF) and the World Federation of Exchange (WFE); and (2) market practices, such as derivatives contracts. As is evident from this list, the word 'institutions' refers here to both formal organizations and informal social institutions, including recognized business practices.

In focusing on changes in the IMF's institutional environment, this paper takes a different approach to other ways of assessing the IMF. This includes those that focus mainly on its internal organization and its relationship with its member states, for instance by stressing the weighting of quotas and voting. As will be noted later on in this paper, although the IMF itself has begun to consider its relations with other institutions in its reform discussions (for instance in its 'medium-term strategy' documents), this consideration has not been extensive. While the reform efforts have been linked to some general trends, such as globalization, they have not been linked to trends that are more specifically relevant to international institutions. This paper seeks to address these gaps in the reform discussions.

## 2. Identifying Relevant Trends in the IMF's Institutional Environment

This paper focuses on three overlapping long-range trends with significant consequences for the institutional environment within which the IMF operates. These trends are visible in a wide variety of contexts, which suggests that they are emblematic of far reaching changes in our contemporary world that should be taken seriously, that they are not specific to any particular issue area, such as money and finance, and that inevitably they will have implications for the IMF and its institutional environment.

The first is a shift from hierarchies and formal rules to more pluralistic arrangements involving networks and informal rules. The second is a shift from the deployment of material resources to the mastery of knowledge and communication as the key source of power and wealth, and a recognition of the socially constructed character of that knowledge. The third is a shift from hegemony to multilateralism and democracy as the most legitimate and effective forms of rulemaking in international affairs. Taken together these trends imply that the old IMF, which operated quite autonomously from other international institutions, in a mutually reinforcing relationship with the power of the American state, priding itself on its formal rule-governed deployment of financial resources, will have to transform itself into a knowledge-based node in a landscape of increasingly networked institutions in which power is dispersed and decentralized, if it is to survive.

*A shift from hierarchies and formal rules to more pluralistic arrangements involving networks and informal rules.*

This trend has been widely observed in a variety of contexts. Consistent with the title of his work on this topic, *The Rise of the Network Society*, Manuel Castells has analyzed networks as a defining feature of contemporary social organization.[2] Other approaches emphasize disaggregated[3] or decentralized authority such as principal-agent theory, the EU's concept of subsidiarity, or Foucault's concept of governmentality.[4] These pick up on a similar shift from centralized hierarchy to more pluralistic decentralized arrangements. Other more focused literatures have identified theoretical or empirical indications of the importance of networks, pluralism, and decentralization, including actor-network theory;[5] the growth of pluralism and soft law in international law;[6] hybrid public/private regulatory arrangements in literatures on the new public management and regulatory reform;[7] the emphasis on external relationships with customers, suppliers, and competitors in business studies;[8] and, studies of global policy networks[9] and transnational advocacy networks.[10]

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[2] Manuel Castells, *The Rise of the Network Society*, 2nd ed. (Oxford: Blackwell, 2000).

[3] Anne-Marie Slaughter, *A New World Order* (Princeton, NJ: Princeton University Press, 2004).

[4] Wendy Larner and William Walters. *Global Governmentality: Governing International Spaces* (London: Routledge, 2004).

[5] Arun Saldanha, "Actor-Network Theory and Critical Sociology," *Critical Sociology*, vol. 29, no. 3 (2003): 419-32.; and, John Urry, *Global Complexity* (Cambridge: Polity Press, 2003).

[6] Dinah Shelton, ed., *Commitment and Compliance: The Role of Non-Binding Norms in the International Legal System* (Oxford: Oxford University Press, 2000).

[7] Hans Huigen, "Co-operative Approaches to Regulation," *Public Management Occasional Paper*, no. 18 (Paris: Organisation for Economic Co-operation and Development, 1997).

[8] Michael Porter, *Competitive Advantage: Creating and Sustaining Superior Performance* (New York: Free Press, 1985).

[9] Wolfgang Reinicke and Francis Deng, *Critical Choices: The United Nations, Networks, and the Future of Global Governance* (Ottawa: International Development Research Centre, 2000); Thorsten Benner, Wolfgang H. Reinicke, and Jan Martin Witte, "Multi-Sectoral Networks in Global Governance: Towards a Pluralistic System of Accountability," *Government and Opposition*, vol. 39, no. 2 (Spring 2004): 191-210.

[10] Sanjeev Khagram, James V. Riker, and Kathryn Sikkink, eds, *Restructuring World Politics: Transnational Movements, Networks and Norms* (Minneapolis, MN: University of Minnesota Press, 2002).

A variety of explanations have been given for these transformations. These include the greater efficiency and effectiveness of networks or pluralistic arrangements in responding to complexity, for instance when strategic alliances are seen as a way for firms to manage large-scale technologies that cross traditional industry boundaries; when supplier networks and other partnerships in the auto industry are seen as a crucial element of success in rapidly changing global markets; or when dis-intermediated financial instruments that are issued and traded through human and non-human networks (i.e. underwriting syndicates and electronic trading systems) are seen as more responsive to rapidly changing market conditions than traditional bank-mediated or state-controlled financing. Sometimes these transformations have been seen as related to the increased knowledge and competence of citizens and employees, such that more horizontal and flatter institutional forms more effectively mobilize economic capacities (an implication of the literature on social capital) and reconcile the need for collective action with individual demands for autonomy.

In theory and practice there has been a very pronounced emphasis on more decentralized institutional arrangements rather than on formal bureaucratic capacity in the design of international institutions. The United Nations Environment Program, created in 1972, is an early example of this, in which a relatively small secretariat achieved significant success by coordinating environmentally-relevant work across a variety of existing institutions, an alternative to the creation of a large new bureaucratic organization. The current prevailing tendency in the study of international institutions has been to focus on flexible and variable arrangements rather than treating large formal autonomous international organizations as the end point of international institution-building, as evident in concepts such as international regimes,[11] legalization,[12] the global

[11] Andreas Hasenclever et al., *Theories of International Regimes* (Cambridge: Cambridge University Press, 1997).
[12] Judith Goldstein et al., eds, "Legalization and World Politics," *International Organization*, vol. 54, no. 3 (Special Issue, Summer 2000).

polity,[13] or rational choice in institutional design.[14] The proliferation of groupings such as the G20, or increased reliance on standards, such as in the EU's Open Method of Coordination, while seen as a second-best alternative to formal organization by some, is consistent with these theoretical developments.

We shall see below that the IMF has moved to engage with these changes, for instance through its important role in the promotion of international standards and codes, but it remains remarkably centralized and bureaucratic relative to most internat-ional institutions. The implication of the changes noted in this subsection is that if the IMF did not exist and was being designed today it is highly unlikely that it would take its present form. Instead, an international monetary fund created in 2006 would be much more integrated with and complementary to other international institutions.

*A shift from the deployment of material resources to the mastery of knowledge and communication as the key source of power and wealth and a recognition of the socially constructed character of that knowledge.*

The importance of knowledge in the contemporary economy and other aspects of society is well recognized. Knowledge is in part an economic resource, such as intellectual property, human capital, or profitable new technologies. But it also plays a key role in social organization, such as when systems of knowledge (like urban planning) shape human conduct, for instance by changing motivations or the built environment. Recognition of this role, which involves the relationship between power and knowledge, has led to major shifts and sharp controversies in the social sciences

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13 Morten Ougaard and Richard Higgott, eds, *Towards a Global Polity* (London and New York: Routledge, 2002).

14 Barbara Koremenos, Charles Lipson, and Duncan Snidal, eds, *The Rational Design of International Institutions* (Cambridge: Cambridge University Press, 2001).

and humanities, including enthusiasm for new approaches such as constructivism and post-structuralism, and much wider acceptance of the need to recognize, even in introductory textbooks, the embedded nature of empirical research in diverse meta-theoretical or philosophical frameworks, the merits of which cannot be definitively established by empirical testing, in part because of their dependence on social values.

While no consensus exists on the best way to think about power and knowledge in the midst of these changes, there has been a noticeable shift in the centre of gravity away from an older positivist model to a view of scientific research that is more reflexive (i.e. willing to re-examine frameworks) and pluralistic. Partly this is driven by a concern with improving the quality of knowledge, and partly by political and ethical concerns about the top-down character of the older model. To caricature, the old model creates a distinction between highly knowledgeable disinterested scientific experts who see themselves as developing universal truths solely on the basis of empirical research, free of political or cultural preconceptions, who seek to transfer this knowledge to unknowledgeable, self-interested policymakers and publics, vulnerable to misconceptions arising from their cultural milieus. In international affairs, this model has often been seen as very important in promoting pragmatic achievements by setting political conflict aside. However this comes with a cost to the quality of the knowledge and its legitimacy.

The IMF, with its high level of expertise, would appear to be ideally positioned to benefit from the increased importance of knowledge noted above. However the IMF continues to be heavily influenced by the older model of science despite some serious efforts to incorporate knowledge from other actors in its own work (including through the Poverty Reduction Strategy Papers). This has implications for the quality of the knowledge it produces and its legitimacy.[15] As in the previous section, which emphasized an organizational shift towards networks, this shift in the character of knowledge production means that the IMF needs to engage in building mechanisms to support more sustained dialogue with knowledge produced elsewhere, including in other international institutions.

*A shift from hegemony to multilateralism as the dominant form of rulemaking in international affairs.*

Hegemony refers to the predominance in world political and economic affairs of a particular state, but it also refers to the mix of coercion and consent that is involved in that state exercising leadership and reinforcing its own dominance. Since the Second World War, United States economic and political hegemony has been of crucial importance to the IMF. The IMF's success rested not just on its own programs but also on the way in which it worked in a mutually reinforcing way with the international power of the US state.

The changing fortunes of the US, relative to other states, since the end of the Cold War have made any assessment of its long-run prospects risky. Between the end of the Cold War and its entanglement in Iraq, the US was often characterized as unchallenged and unchallengeable, and the 'empire' label was approvingly bestowed upon it by many of its supporters, suggesting that it had moved to a position of even greater dominance than signified by the 'hegemony' label. Since then, and in part due to the failures in Iraq, US power appears considerably more limited. With its trade and budget deficits, dependence on foreign energy, and a variety

[15] Jacqueline Best, "The Dilemmas of Political Economic Legitimacy: Recent IMF Reforms in Critical Perspective," Paper presented at the Canadian Political Science Association meeting, Toronto, ON, 2 June 2006.

of structural economic weaknesses (such as inadequate planning for its aging population and educational deficiencies), the US today looks very different than it did when the IMF was created.[16] More than a decade ago John Ruggie argued that multilateralism had become the prevailing institutional form at the international level.[17] Now, following its unipolar moment, a more sober US government realizes once again the need to work respectfully with allies if global challenges are to be addressed. Moreover democracy, or related features of international institutions - transparency, accountability, national 'ownership' and opportunities for input, among others - are becoming increasingly important to the legitimacy and therefore to the capacity of all international institutions, including the IMF.[18] As US relative power diminishes, the IMF will need to rely more on its ability to respond to genuinely multilateral processes that identify collective needs and public goods, that it is uniquely suited to supplying. As we shall see below, the IMF's new emphasis on multilateral surveillance takes an important step in this direction.

## 3. The IMF's Institutional Environment

In this section, I examine changes in the international institutions identified earlier that complement and compete with the IMF. The relevance of the trends noted above for these institutions and their relations with one another and the IMF will be explored. If these trends are visible, the contention that the IMF's environment has changed in a way that requires the trends set out in the previous section will be supported. This perspective challenges the view that the IMF's earlier pre-eminence can and should be restored,

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[16] Tony Porter, "US Foreign Economic Policy under Bush: Imperial, Inspired, or Incompetent?" *Journal of Military and Strategic Studies*, vol. 8, no. 1 (Fall 2005).
[17] John Gerald Ruggie Multilateralism Matters: The Theory and Praxis of an Institutional Form (New York: Columbia University Press, 1993).
[18] Best, "The Dilemmas of Political Economic."

or that the messiness of alternative institutional arrangements is a sign of their ad hoc and temporary character that should ultimately be replaced by the type of formal autonomous bureaucratic institutional form that the IMF has represented. By analyzing these institutions we can better understand their potential for competing with or complementing the IMF. I consider first the public sector institutions and then the private sector ones.[19]

*Public sector international institutions: (1) other formal global intergovernmental organizations such as the BIS, the OECD, the World Bank, and IOSCO; (2) informal public sector groupings such as the G7, G20, the BCBS, the FSF, the IAIS, and other Basle-based committees; and (3) regional groupings such as the ECB, and the Chiang Mai Initiative.*

If we compare the public international institutions that concentrated on monetary and financial matters (other than the IMF) in the 1960s and 1970s with those of today, it is clear that there has been a remarkable growth in their number and complexity. In the immediate post Second World War period, the key institutions were the World Bank, the OECD[20], and the Bank for International Settlements (BIS). The first was focused on reconstruction and development. The OECD was beginning to establish expectations and rules about the liberalization of cross-border capital flows. The BIS, which before the war had been heavily and controversially involved in German reparations and gold transfers, focused on facilitating swaps among central banks and gathering information on money and finance.

[19] More information on the institutions discussed in this section is available in Tony Porter, *Globalization and Finance* (Cambridge: Polity Press, 2005); and through the institutions' respective websites.
[20] The Organisation for European Economic Co-operation became the OECD in 1961.

In 1962 the General Arrangements to Borrow and the Group of Ten Central Bank Governors (G10) were formed to enhance the IMF's lending capacity while providing more control over that extra capacity for those states supplying it. The Committee on Gold and Foreign Exchange was also formed in that year, taking over from the Gold Pool, and continues today at the BIS (having been renamed the Markets Committee), promoting the sharing of information on foreign exchange matters. The G10, working with the BIS, would evolve into a focal point for efforts to promote monitoring, analysis, and coordinated regulation of the Euromarkets and the globalization of finance more generally. In the 1960s a number of officials at the BIS had been asked by the G10 to monitor the size of the Euromarkets - a group that would be more formally constituted as the Eurocurrency Standing Committee in 1971, which in turn would be renamed the Committee on the Global Financial System in 1999. In the 1970s officials also began sharing information and coordinating on issues related to computerized transfers of funds through the BIS, creating the Committee on Payments and Settlement Systems. Other committees following this pattern of relatively informal groupings of regulators with secretariats at the BIS included the Basel Committee on Banking Supervision (BCBS) created in 1975, the ad-hoc and short-lived Committee on Interbank Netting Schemes created in 1989, the International Association of Insurance Supervisors (IAIS) created in 1992, International Association of Deposit Insurers (IADI) created in 2002, the Joint Forum created jointly by the International Organization of Securities Commissions and the BCBS in 1996, and the Financial Stability Forum created by the G7 in 1999. Membership of each of these committees was restricted to a dozen or so of the most influential countries in global finance, with the exception of the IAIS and the IADI, which have broad memberships and in the case of the IAIS includes industry as important associate members.

As these regulatory groupings were developing at the BIS, there was a parallel reliance on informal exclusive arrangements at a more political level, first with the G7, which was initiated with meetings of the leaders of the top six industrialized countries in 1975, adding Canada the following year. With the addition of Russia to the summit meeting starting in 1994, the G7 leaders became the G8. The G7 meets at the finance ministers' level as well, and periodically other G7 ministers meet on particular issues. In 1999, in the wake of the East Asian and Russian crises, the G20 was formed, bringing together finance ministers and central banker governors from the G7, twelve additional 'systematically important' countries, and representatives of the IMF, World Bank, and EU. Both the G7 and the G20 are relatively informal, with no permanent secretariats or articles of agreement. Every year a different member hosts an annual meeting and sets the agenda. In both cases their power comes not from the creation of formal international law, but rather from their ability to develop agreed policy directions which can then be implemented in member-states and international organizations such as the IMF. Both also have been seen by their creators as superior to more formal arrangements in the degree to which genuine exchanges of views occur among policy-makers, instead of formal rhetorical speechmaking by diplomats. At present the G20 does not meet at the heads of government level, despite some calls for a leaders' level summit (or L20) that would do so. The G20 was a response to the recognition that major emerging markets needed to be incorporated into global policy processes if solutions were to be found for international financial instability.

The four more formalized and bureaucratic organizations concerned with money and finance, the BIS, OECD, World Bank, and IOSCO, all overlap and differ in their roles:

- The primary role of the BIS, aside from hosting the committees listed above, has been to contribute to knowledge about international money and finance through its statistics and analytical reports; and to facilitate exchanges between the central banks that constitute its membership. Despite some grumbling among its members, the BIS contributed US$10 billion in loans in the joint response of the US, the IMF and others to the Mexican peso crisis of 1994. In the past 15 years the BIS expanded its membership dramatically beyond its original European base to include many developing country central banks. It opened its first office outside Basel in 1998, in Hong Kong. The US, which for most of the existence of the BIS was indifferent to it, became more actively involved in taking up its seat on the BIS Board in 1994.

- The OECD similarly specializes in analytical and statistical information of all types, including financial and monetary. It also organizes negotiations among its member states on particular issues. In the case of finance the most important of these are those concerned with the liberalization of cross-border capital flows, formalized as the Code of Liberalization of Capital Movements. This Code was agreed in 1961 but remains relevant today, for instance in the requirement of new members such as Mexico, South Korea, the Czech Republic, Hungary, Poland and the Slovak Republic to comply with it. For some critics this requirement contributed to the crises in Mexico in 1994 and South Korea in 1997. OECD efforts to spearhead a stronger Multilateral Agreement on Investment were an embarrassing failure for the organization, in part due to its failure to take seriously the need to engage openly with critics. Its role in developing standards of corporate governance, which it carries out jointly with the World Bank, has been much more transparent and consultative.

- The World Bank has primarily been focused on development financing, although in recent years it has sought to repackage itself as a knowledge bank, upgrading the importance of its expertise relative to its financial resources. Its membership and governance structure based on weighted voting closely resembles that of the IMF, and like the IMF it has been criticized for its tendency to strongly represent creditors relative to borrowers. In comparison to the IMF's modest efforts, the World Bank has made more extensive efforts to interact with non-governmental organizations, beginning with the World Bank-NGO Working Group established in 1981, and its approach to knowledge production has moved further beyond macro-economic approaches than the IMF with its interest in such concepts as social capital and gender, although the significance of this remains contested. Like the IMF, it has become much more involved in financial sector regulation through such programs as the Reports on Observance of Standards and Codes and the Financial Sector Assessment Programs.

- IOSCO is the international forum for securities regulators. Its membership is worldwide although its most important committee, the Technical Committee, is dominated by the most powerful member-countries. As of 2003, IOSCO had 181 members covering more than 90 per cent of the world's securities markets. Created in 1974 as a regional organization in the Americas, it adopted its present name and a global mandate in 1984. Its most important accomplishment have been a series of memoranda of understanding for mutual assistance in the prosecution of cross-border securities fraud, including a multilateral one with a rigorous screening review process, agreed in 2002, which all members will be required to implement by 2010. IOSCO has also promoted standards for a variety of actors associated with securities markets, such as mutual funds, and it has sponsored a large number of technical reports on issues of concern to regulators. Private sector actors such as exchanges have opportunities for restricted participation through affiliate membership.

Regional public sector institutions have been playing an increasingly prominent role in international finance. The most formalized example is the European Union, which has integrated and regulated its own geographic space directly and is beginning to influence developments in other areas as well, as with the assistance it is providing to the Gulf Cooperation Council in their exploration of the idea of a monetary union. As the euro gains strength internationally as a reserve currency, this also has impacts at the global level. Monetary and financial cooperation among public sector actors in North America is remarkably minimal, and mainly consists of informal interactions between federal, provincial and state officials. The financial aspects of the NAFTA, aside from the Chapter 11 provisions on investments, are not especially significant or strong, and mainly relate to following through on commitments to liberalize cross-border financial services. In Asia the most important developments have been the Chiang Mai Initiative of the ASEAN + 3 grouping (ten ASEAN countries plus China, Japan and South Korea) involving agreements to make convertible currency available to one another in times of crisis. The Executives' Meeting of the East Asia-Pacific Central Banks (EMEAP) group, created in 1992, also plays an important role in regulatory and central bank cooperation in the region and sponsored the US$1 billion Asian Bond Fund, and effort to stimulate the East Asian bond market, which would be a source of long-range financing and could contribute to regional stability. Less well known are a series of regional groupings of bank regulators, including for instance, in addition to EMEAP's, Caribbean Banking Supervisors Group (formed in 1982), the Group of Banking Supervisors from Central and Eastern Europe (1990), the Arab Committee on Banking Supervision (1991), and the East and Southern Africa Banking Supervisors Group (1993). By 1998, ten of these had been created, covering most of the world's regions, and they have played an important role in interacting with the BCBS, promoting its standards, and dealing with regional issues.

*International private sector institutions: (1) international private-sector associations directly or indirectly involved in financial rulemaking such as the IASB, the ratings agencies, the IIF and the WFE; (2) market practices, such as derivatives contracts.*

There are approximately 225 private sector associations actively engaged in cross-border finance, distributed across various sectors (banking, securities, insurance and accounting) and regions (international: 107; Europe: 40; Africa: 21; Arabic/Islamic: 12; Asia: 25; Caribbean, Pan-American, and Latin American: 14).[21] As with public sector institutions, there are almost no private sector associations primarily active in North America as a region. These associations engage in varying mixes of advocacy, standard-setting, education and member services. The two most significant associations with regard to advocacy are Institute of International Finance and the Financial Leaders Group. The former has more than 320 members, mostly banks, headquartered in over 60 countries, and is the primary private sector interlocutor of the BCBS, the FSF, and the IMF. The latter consists of CEOs of leading financial firms, and its primary focus is the liberalization of financial services at the World Trade Organization. The International Accounting

[21] This data is based on extensive collection of data on these associations as part of a project by Heather McKeen-Edwards and Tony Porter. The associations were identified with the help of the *Yearbook of International Associations*, snowball searching from one website to another, an examination of relevant scholarly and trade literatures, and interviews with regulators and officials from associations. For an analysis of these associations see Tony Porter, "The Significance of Changes in Private-Sector Associational Activity in Global Finance for the Problem of Inclusion and Exclusion," in Peter Mooslechner, Helene Schuberth, and Beat Weber, eds, *The Political Economy of Financial Market Regulation: The Dynamics of Inclusion and Exclusion* (Cheltenham, UK: Edward Elgar), 89-114; and on those active in the global south, see Heather McKeen-Edwards and Tony Porter, "The Role of Financial Associations in the Global South," Paper prepared for presentation at the panel on The Political Economy of North-South Financial Relations, Congress of the Canadian Association for the Study of International Development (CASID), The University of Western Ontario, London, 4 June 2005. See also <http://www.paif.ca>, which reports on the project as of 2002.

Standards Board is the most significant private-sector rulemaking body at the international level. Other important associations include the World Federation of Exchanges and the International Capital Market Association, formed in 2005 out of the merger of the International Primary Markets Association and the International Securities Markets Association, which organizes the international bond markets, and the International Swaps and Derivatives Association (ISDA), but there are a very large number of other globally active specialized associations, including for instance the Certified Financial Planner Council, or the CFA Institute, which manages the Chartered Financial Analyst designation.

While many financial practices are codified by associations, such as the ISDA's Master Agreement (a set of standard contracts), or the IASB's accounting standards, this codification does not at all capture the organizational effects of financial practices more generally. For instance the development of derivatives markets, which was accompanied by high degrees of potentially disastrous systemic and individual risk, are also mechanisms for organizing the repackaging and transferring of risk in ways that can complement or substitute for functions of large public-sector organizations such as the IMF's role in stabilizing exchange rate expectations. Like accounting and auditing, ratings agencies and the practices of debt rating are significant for the IMF since they are forms of private-sector surveillance and analysis that are similar in some respects to the surveillance and analysis of the IMF. The world has become more and more densely populated by various international financial practices.

Overall the growth of private financial sector institutions and practices at the global level provides both opportunities and challenges for public sector institutions. Opportunities include the ability of regulators to more effectively harness private sector institutions, such as how the public sector has effectively encouraged the addition of collective action clauses to bond contracts as a way to reduce its own costs in crises. Challenges include the problem of 'capture', when private-sector lobbying is so intense that it subverts or de-legitimizes public policies, and increases in systemic instability, such as when new institutions and practices with poorly understood risk implications rapidly emerge, such as retail-oriented hedge funds.

## 4. What Can the Development of Competing Institutions to the IMF Say about the IMF's Future?

Two tasks are important in assessing the significance of the above institutions to the IMF. The first is to see what their emergence says about the institutional form taken by international monetary and financial institutions in general, including with reference to the three trends identified above. The second is to more specifically evaluate the degree to which these institutions compete with or complement the IMF and the functions that it carries out. I address these in turn.

Earlier on in the paper I identified three trends: a shift from hierarchies and formal rules to more pluralistic arrangements involving networks and informal rules; a shift from the deployment of material resources to the mastery of knowledge and communication as the key source of power and wealth, and a recognition of the socially constructed character of that knowledge; and a shift from hegemony to multilateralism and democracy as the most legitimate and effective forms of rulemaking in international affairs.

The institutional landscape described above displays these trends to an important degree. These institutions are varied in their form, membership, and functions. One can discern relationships among them; for instance, the Financial Stability Forum includes representatives from other Basel-based committees along with the OECD, IMF, World Bank, IASB and European Central Bank, and it was created by and is dominated by the G7, which also has the capacity, especially working with the G20, to shape the direction of the IMF and World Bank, which in turn traditionally have exercised significant influence over other governments through processes of surveillance and conditionality. To some extent this way of looking at the institutions highlights the degree to which the G7 has centralized flows of information and influence in its own hands. On the other hand, none of this is formalized, and each institution has its own particular functions, making this more of a modestly centralized network arrangement than a traditional hierarchical one.

The role of socially constructed knowledge in linking these institutions together is most apparent in the FSF's promotion of sets of international standards and codes, each of which is developed by other institutions than the FSF itself. These efforts at developing standards involve identifying and promoting best practices, a good example of the way that knowledge can structure conduct. Each institution's codes are primarily developed internally, and although the US or the G7 can influence the general direction of standard-setting or even the details of particular standards in some cases, in general the power of these states is significantly constrained by the need to justify the standards in accordance with technical criteria developed in the standard-setting institution, and in a way that this justification will make sense to all affected actors, not just powerful ones.

Although the ongoing dominance of powerful states over policy processes is evident in the restricted membership of key bodies, such as the BCBS, the FSF, IOSCO's Technical Committee, and the IASB, in each case efforts have been made to increase the representation of other countries in rule-setting processes, and thereby to enhance their multilateral and democratic character. For the BCBS, in addition to the regional groupings, it has involved regulators from other states in particular projects, some of which are specifically oriented towards the world outside the BCBS membership, such as the Core Principles. The FSF has made similar efforts with regard to non-members. IOSCO has increased the linkages between its Technical Committee and Development Committee and its regional committees have also been a vehicle for enhancing participation. The IASB has sought to provide ways for states that are not on the Board to interact with the standard setting process through its Standards Advisory Council. In each case the institution can be criticized for continuing to exclude states and other actors that should have more input, but nevertheless they display a trend that is consistent with increasing multilateralism and democracy.

The presence of these three trends in the international institutions in the IMF's environment suggests that the form they have developed is consistent with very widespread trends in contemporary social organization more generally, and that likely the determinants of the trends are similar in general and for global monetary and financial institutions. As noted previously, these determinants include the greater efficiency and effectiveness of networks or pluralistic arrangements in responding to complexity, as well as the increased knowledge and competence of citizens and employees, such that more horizontal and flatter institutional forms more effectively mobilize economic capacities and reconcile the need for collective action with individual demands for autonomy. At the international level this mobilization of capacities and reconciliation with demands for autonomy can be applied to small or poor states as well. The decline in hegemony is also important. Taken together this means that the interrelated institutions constitute a decentralized arrangement that is not a poor substitute for a centralized bureaucracy like the IMF, but rather a contemporary institutional form that has distinctive advantages over centralized bureaucracy.

It is now time to more specifically evaluate the degree to which these institutions compete with or complement the IMF and the functions that it carries out, or that it might be expected to carry out in the future. I start by specifying the IMF's functions, and then discuss the relevance of other institutions to these.

The IMF's functions include the general purposes set out in the IMF's Articles of Agreement, namely: fostering consultation and collaboration on monetary matters; promoting the growth of trade, and thereby high employment and incomes; and working on exchange stability, multilateral payments systems, and balance of payments problems, including through the provision of financing. We should also include more specific newer functions that the IMF has taken on to a greater degree than originally envisioned, such as the provision of specific advice on the domestic regulation of financial systems through Article IV consultations or processes of conditionality. Simply listing these functions tends to obscure their interrelationship, which has been the biggest source of the IMF's influence in recent decades. The IMF through its conditionality, weighted voting, universal membership and the legitimacy this confers, its powerful capacity for generating economic analysis, and its capacity to lend, has been uniquely capable of generating a very asymmetrical but relatively effective order in which wealthy countries supply the resources for the IMF to inspire, cajole, and force willing and recalcitrant poorer countries to adopt practices deemed to be optimal for the asymmetric system as a whole, and for each country in it. We can divide this into two interdependent functions: the provision of financing and the production and use of knowledge.

It is these two interrelated functions that have especially run into trouble. These troubles are not entirely due to the IMF's relations with other institutions. For instance, the deficiencies in quality of the IMF's policy advice is in part a problem related to the internal culture and staffing of the organization and its declining ability to use conditionality as an instrument of power relates to the accumulation of financial resources elsewhere, including in capital markets, in official reserves or oil revenues of potential borrowers, and limits over the willingness of wealthy states to supply resources to the IMF. However even these problems are related to other international institutions since, as noted earlier, deficiencies in policy advice could be alleviated by opening up the IMF's knowledge production process to influences from other knowledge-producing international institutions. Similarly the growth of capital markets as an alternative source of financing or risk-mitigation to the IMF is in part related to the growing capacity of formal and informal international institutions that make such growth possible, such as the role of the ISDA in derivatives markets, and non-IMF collaborative arrangements between central banks, especially the Chiang Mai Initiative, contribute to the increased ability of potential borrowers to use their own reserves to avoid conditionality processes.

The IMF's closest competitors are the OECD, the BIS, the World Bank and the regional development banks. All of these compete in the production of knowledge about macro-economic performance, and all have an impact on financing, although none provide balance of payments financing in the precise manner that the Fund does:

- The OECD has a more restricted membership and less of a focus on balance of payments issues, but it has a greater capacity to link macro-economic analysis to a wide variety of other policy fields which it studies, including for instance social policy. The OECD's peer review is a mechanism of accountability that is similar to the IMF's surveillance processes, but since it tends to involve participants that are more equal to one another than the IMF's it suffers from fewer problems of legitimacy. The OECD does not lend, which reduces its capacity to work its knowledge into conditionality processes, although its approval and membership can significantly reduce the cost of raising capital in private-sector markets, especially when this is referenced in other regulation, such as the 1988 Basel capital adequacy standards that imposed risk-mitigating costs on non-OECD countries.

- The BIS also has a more restricted (but rapidly expanding) membership and a legacy of excessive Euro-centrism, although its close relationship with the various committees it hosts, some of which have extensive relationships with groupings, firms, or governments in other parts of the world, offsets this Euro-centrism. Its focus is on monetary and financial statistics, and best practices in financial regulation, and its capacity in these is superior to the IMF's, but it does not generally connect these to the provision of specific policy advice, as the IMF does. It can provide financing by facilitating swaps among its member central banks, but these are smaller in volume and much less institutionalized than IMF credits.

- The overlap between the knowledge produced by the multilateral development banks and the IMF has been a major focus in discussions of IMF reform. Both the Fund and the Bank have sought to provide macro-economic advice to developing countries and to use conditionality and surveillance mechanisms, including Reports on Observance of Standards and Codes, to promote compliance with this advice. The World Bank and the regional development banks have a much greater capacity to link macro-economic analysis to development and other policy issues, a much greater pluralism in knowledge production, and a much closer engagement with civil society actors. The lending practices of these organizations have been similar to the IMF's despite the original intention that the IMF's lending would be short term and more focused on balance of payments problems than the development lending of the others.

*Three conclusions can be drawn from this comparison:*

1. These other organizations have been more successful in linking a capacity to do macro-economic analysis with capacities in other policy areas, such as social policy at the OECD. Since these linkages are only likely to increase as globalization and modernity more generally continue to evolve, this puts the IMF at a disadvantage that will get dramatically worse if it were reconfigured to have a narrow, insular and single-minded focus on macro-economic analysis relevant to payments and exchange rate issues.

2. Despite the IMF's initial great advantage of universal membership, it suffers greater problems with legitimacy and inclusion than these competing organizations. The OECD makes fewer claims than the IMF that its advice must be applied universally and its peer review process is more easily characterized as equals holding each other accountable to agreed standards. The BIS and its committees have been increasingly seeking to have their advice applied worldwide, but their rate of new initiatives to enhance inclusion in policy processes of those governments that previously were excluded has been much higher than the IMF's and the less harsh character of that advice, has contributed to fewer legitimacy problems. The multilateral development banks, due to the variation among them, the greater pluralism that has been encouraged within them, and the better links they have

established with civil society actors, also suffer fewer legitimacy problems.

3. While none of these competing organizations have the distinctive lending capacity linked to policy advice of the IMF, they do display involvements in financing that may be more consistent with the needs of future potential borrowers: less intrusive conditionality in the case of the BIS; greater acknowledgement of the links between debt issues and non-financial issues in the case of the OECD and the multilateral developm-ent banks; and a relatively greater emphasis on standards that enhance access to all types of private-sector financing in non-crisis conditions in the case of the OECD and BIS committees.

A key concept in actor network theory is 'enrolment', which means the capacity of actors to draw other actors and objects (such as technical networks) into projects. Braithwaite and Drahos, drawing on this theory, argue that this type of phenomenon accounts for the ability of single individuals, like Ralph Nader, to have remarkably wide ranging effects[22]. Despite some similarities to Gramscian concepts of hegemony,[23] in which dominant actors successfully portray their projects as universally beneficial, the concept of enrolment differs significantly in its dramatically more open and decentralized character. These differences point to a shift that is crucial for the IMF if it is to cope with the three trends identified in this paper: how can it shift its ability to empower the knowledge it produces from reliance on its links to US hegemony and conditionality processes, to an ability to engage with and enrol other actors in its projects by drawing on its distinctive capacities. The IMF's financing capacities are distinctive, but without a read-

[22] John Braithwaite and Peter Drahos, *Global Business Regulation* (Cambridge: Cambridge University Press, 2000).
[23] Stephen Gill, ed., *Gramsci, Historical Materialism and International Relations* (Cambridge: Cambridge University Press, 1993).

justment of their connection to its knowledge-producing capacities it is unlikely that they will be used, just as investors will not put their money in mutual funds or banks known to suffer from deficiencies in their analytical capacities, or firms seeking to raise funds in securities markets will not use accounting firms or ratings agencies whose reputations for analysis are poor.

These points are reinforced by bringing into the analysis the other competing institutions to the IMF than the ones examined in this section. For instance, since the crises of the 1990s, it is obvious that the governance of securities markets has an impact on the type of macro-economic and exchange rate stability that is the IMF's focus. Separate institutions that focus on this, such as IOSCO, the WFE, the ISDA, the IASB, the ICMA, the ratings agencies, and the CFA Institute, are going to continue to each play distinctive roles in this governance, and it is highly unlikely that they or their functions will be subsumed within a larger organization. The IMF's success relative to competing international institutions in addressing the linkages between securities markets and macro-economic stability will be dependent on the quality of the links it develops to these other institutions, not on the ability of its own economists to collect data or passively observe developments in securities markets from on high and incorporate these into their models. Similar points could be made about banking, insurance, or non-financial policy areas with implications for macro-economic stability, such as energy, health, and environmental sustainability.

These conclusions would be further reinforced if we do not limit our analysis to the IMF's relations with existing international institutions concerned with money and finance and consider other existing and potential institutions. These include formal international institutions such as the International Energy Agency, the World Health Organization, or the UN Environment Program, that deal with the non-financial policy fields mentioned above, but also institutions that have not yet been invented that focus on money and finance. The monetary and financial institutions that have been discussed so far in this paper are ones that have been attuned to the preferences and ideas of wealthy states and financial firms, in part due to the deliberate power exercised by these, and in part due to a lack of capacity or interest on the part of other actors. Civil society actors, for instance, have been much less active on issues of financial regulation than on environmental matters, and despite efforts to increase the input or ownership of developing country governments in policy processes, it is likely that new institutions will be needed to allow such actors to develop an autonomous analytical capacity that will allow consideration of their distinctive concerns in a way comparable, for instance, to existing international financial services associations such as the IIF.

## 5. Other Institutions in the IMF's Current Work and Reform Initiatives

To some extent the IMF has already been shifting in the direction recommended by the analysis above, but there are countertendencies as well. The overlap between the World Bank's work and the IMF's is well known and has been a topic of reform discussions, but the IMF has also interacted with most of the public sector institutions discussed in the paper to some degree. For instance, its 2005 Annual Report notes that its Paris Office liaises with the G10, the OECD, the BIS and the European Commission and attends on an ad hoc basis meetings of the Financial Action Task Force. The Geneva Office liaises with the WTO and the UN agencies there, and the Regional Office for Asia and the Pacific in Tokyo works with APEC, ASEAN, the Asia-Europe Meeting, the South East Asian Central Banks, EMEAP, and other regional organizations. The IMF has collaborated with the UN on the 2002 Monterrey Consensus and the Millennium Development Goals.

In 2005 it also worked with the Basel Committee, the IAIS, and the Committee on Payments and Settlement Systems. The International Tax Dialogue, a joint project of the IMF, World Bank and the OECD, was initiated in 2004 to foster cooperation among international tax authorities.

Despite the impressive number of institutions that the IMF has some relations with, these interactions remain peripheral to its main work, and their place in the IMF's thinking about its future remains unclear. The 2005 Annual Report notes "the IMF's role in the international monetary system, and its division of labor and collaboration with other organizations, are among the questions being considered in the Fund's current strategic review."[24] Yet in its 2005 and 2006 medium-term strategy reports there is only a relatively small discussion on collaboration with other institutions. On its emphasis on multilateral surveillance, which is a shift in the direction recommended in this paper, the Fund notes:

> It is proposed to complement existing arrangements with a multilateral consultation procedure, allowing the Fund to take up issues collectively with systemically important members and even with entities, such as regional groupings, that are not members. A procedure that views problems as the joint outcome of many actors should enable more tangible progress in addressing issues. Operational modalities still need to be worked out on how best to engage the main parties involved.[25]

Among its seven actions specified for implementing more effective surveillance, it further includes a call for multilateral dialogue:

> Although the G-7 and G-20 can also provide relevant fora, policy collaboration is likely to be most effective when under-

[24] IMF 2005 Annual Report (p. 95)
[25] IMF (2006: 3)

> taken by a universal institution such as the Fund. The obvious example of such a role for the Fund is the current debate on global imbal-ances, which is a key problem that needs to be managed - if not resolved - by the international community. The debate now spans many new and large actors. An objective analysis of unilateral versus multilateral action, discussed at the level of the International Monetary and Financial Committee, could yield the sort of cooperative solutions envisaged in the Fund's Articles of Agreement. Such initiatives must become an integral part of our work.[26]

In its report on multilateral surveillance, the Independent Evaluation Office, while providing a list of many of the public-sector international institutions discussed in this paper,[27] focused especially on importance of the IMF's relationship with the G7 and G20. It noted:

> The effectiveness of IMF multilateral surveillance, therefore, depends critically on the effectiveness with which the institution interacts with these major intergovernmental groups. Within the IMF, however, there is ambivalence toward these groups, which are seen more as competitors than as allies… This ambivalence is partly reflected in a lack of continuity in instit-utional representation and in a poor infrastructure to support the IMF's inputs into these and other similar groups… As a result, the IMF has not proactively engaged with these inter-governmental groups.[28]

There is also worry that the Fund is already pulled in too many directions: "the accretion of new mandates, without eliminating

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[26] IMF, "The Managing Director's Report on the Fund's Medium-Term Strategy" (Washington, DC: International Monetary Fund, 15 September 2005), 5.
[27] IMF, "An Evaluation of the IMF's," 18.
[28] Ibid., 56-7.

old ones, has made it difficult to allocate resources effectively and to stay ahead of emerging challenges,"[29] which may lead the IMF to reduce the number of linkages it pursues with other institutions. However the best solution is neither to add resources to build expertise on every issue area, nor to retreat to a blinkered and narrow focus on the IMF's original goals, but rather to build connections that take advantage of the distinctive contributions of other institutions. This also does not mean that these relations need to be permanent and formalized, as is evident for instance with the heavy reliance on ad hoc committees in international financial regulation and elsewhere.

## 6. Conclusion

In focusing on international institutions that compete with or complement the IMF, this paper has sought to contribute to our understanding of an aspect of IMF reform that has been acknowledged as important but has only begun to be explored. It identified three trends relevant to international institutions - a shift from hierarchies and formal rules to more pluralistic arrangements involving networks and informal rules; a shift from the deployment of material resources to the mastery of knowledge and communication as the key source of power and wealth and a recognition of the socially constructed character of that knowledge; and, a shift from hegemony to multilateralism and democracy as the most legitimate and effective forms of rulemaking in international affairs. It then discussed the public and private sector international institutions that compete with or complement the IMF, and the relevance of these three trends for these institutions, which suggests that the decentralized, networked, knowledge-intensive, and multilateral and increasingly democratic characteristics that they display are not temporary deviations from the more centralized

[29] IMF, "The Managing Director's Report," 2.

and bureaucratic form that the IMF exemplifies. The paper then considered the degree to which institutions other than the IMF carry out work that overlaps with the IMF's own functions, and concluded that this overlap is substantial, and that other organizations possess some advantages over the IMF in this, highlighting the need for the IMF to build on its own unique competitive advantages, enhance its engagement with other institutions, and to enrol other institutions in its own projects. Finally, the paper examined the degree to which current reform discussions at the IMF are moving in the direction recommended by this paper and concluded that such efforts are only beginning.

The IMF's medium term reform strategy places a strong emphasis on globalization, noting "the most important force at play in the world economy today is that of globalization."[30] One of the most readily apparent features of the literature on globalization is the degree to which it shifted over time from an emphasis on economic flows to a recognition that globalization is a multi-dimensional phenomenon that includes cultural, social and organizational change as well. Also apparent is a shift from a tendency to treat globalization as a quasi-natural phenomenon that human actors could respond to but not manage, to a recognition that globalization is also constructed, including by factors having more to do with the deliberate deployment of power and ideas than material relationships detached from human intention. One of the IMF's challenges is to consider the implications of these broader understandings of globalization for its own future, something it has begun to do with initiatives such as multilateral surveillance, but which will continue to be challenging since it requires new relationships with an environment that is already complex and is continuing to change rapidly.

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[30] Ibid.

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