THE IMF AND DEMOCRATIC GOVERNANCE

Devesh Kapur and Moisés Naím

Devesh Kapur *is Frederick Danziger Associate Professor of Government at Harvard University.* ***Moisés Naím*** *is editor of* Foreign Policy *magazine at the Carnegie Endowment for International Peace in Washington, D.C.*

The International Monetary Fund (IMF) plays many roles in the global economy, and appears to be playing a significant—and controversial—role in influencing the global prospects of political democracy as well. Created as a financial cooperative by the Bretton Woods[1] agreement in July 1944 and made a specialized UN agency three years later, the IMF was conceived as a major element in a battery of organizations (the World Bank was another) that would help to prevent a postwar recurrence of worldwide economic depression and its associated evils by giving numerous countries a stake in the stability and sound basic management of the whole system of international payments, finance, and trade.

The Fund acts as a financial and informational go-between, a bulwark against global financial chaos, and a source of restraint on governments prone to dangerously heavy borrowing. In the eyes of some, the Fund also functions as a debt collector for lenders of international capital and a foreign policy instrument for certain nation-states that are among the largest IMF shareholders. At the same time, the Fund serves as a convenient scapegoat and punching bag for unhappy member states as well as antiglobalization activists from the left and "small-government" fundamentalists from the right. Finally, there are observers for whom the Fund, with its capital of roughly US$300 billion, represents the institutional possibilities—and unfulfilled hopes—of global governance.

In recent years, the IMF's scale and scope have expanded enormously. Its member countries have grown from 29 at its inception to 184 today. But even more importantly, world trade expanded rapidly and global capital flows grew exponentially—total foreign assets of banks rose from $775 billion in mid-1984 to $17.1 trillion in mid-2004, an increase of more than twenty-fold.[2] This changed international economic landscape has created new demands upon the IMF as well as new problems for which answers are neither obvious nor simple. Not surprisingly, the added complexity of the issues and the institution has sparked a number of intense controversies. Politicians often accuse the Fund of mismanagement while leading economists argue vehemently both for and against the IMF stance.[3] Debate has swirled around the potential alternatives to IMF programs, the conditions that the Fund typically attaches to its loans, and the consequences—especially in the form of painful and politically sensitive "austerity" measures—for the countries whose governments do the borrowing, and in whose macroeconomic stability the IMF has a stake. Everyone agrees that these consequences reach well beyond the economic realm and can have massive, all-too-concrete social and political effects, not least on the processes and institutions that make up the nerves and sinews of democracy.

The Fund's original purpose, "the promotion and maintenance of high levels of employment and real income," has an indirect bearing on democracy: Countries with higher incomes tend to be more hospitable to consent-based methods of resolving political issues. A lending stance favoring (or disfavoring) democracies can have a more direct effect on democratic institutions in the country. What is more, the economic reforms that the Fund often mandates as a condition for its loans inevitably create winners and losers who may opt for political action to guard gains or make up their losses. Finally, since few events can threaten democratic order as badly as a full-blown economic or financial crisis, the Fund's efforts to avert or contain these can be of great help in preserving democratic rule.

Studies of the results associated with the Fund's programs present a mixed picture, and often must rely on problematic methods such as the attempted simulation of counterfactual situations. Most analyses of the IMF's impact on democratic governance focus on the conditions that the Fund imposes on borrowers. Conditionality, historically the most central and contentious aspect of Fund programs, has direct effects on democracy.[4] The Fund's original design as a financial cooperative meant that industrialized countries were also potential borrowers, which kept the scope of conditionalities in check. By the mid-1970s, however, Fund programs in industrialized countries had ceased. This left two groups of members: "structural creditors" (or the industrialized countries) on the one hand, and developing countries as borrowers or potential borrowers on the other. The industrialized countries' dominance within the IMF and the unlikelihood of their ever having to be on the receiving end of IMF loan conditions created more room for rigor in the Fund's typical conditionality regime. New guidelines came out in 1979; the next two decades would see conditionality mount steadily.

This has changed modestly in recent years, and especially since the East Asian financial crisis of 1997–98. New guidelines issued in 2002 stress that conditions should be applied "parsimoniously" and must be sensitive to the administrative capacity of borrowers. The guidelines also enjoin the Fund to focus on macroeconomic matters, leaving finer-gauged programs to the World Bank and other multilateral development banks.

The guidelines also note that IMF programs toward which borrowers feel a sense of "ownership" will be the most likely to succeed. Yet what does this mean? In a country where democratic checks and balances are weak, "ownership" may be little more than a sign of the stranglehold that vested interests have on national policy. Then too, the difference between inducing a government to "own" an IMF program and getting a whole country to do so can leave the Fund with hard choices. Does regard for "country-level" ownership mean that the IMF should let a government use public funds to save private banks looted by politically influential shareholders? Should hospitals that cater to the powerful get public subsidies for the sake of cultivating "government" ownership even when health spending on the poor is being cut? Ownership, finally, will not guarantee better policies: When the World Bank recently announced that it would accept the environmental rules of certain borrower nations rather than impose its own, many NGOs angrily observed that these local rules would fail to safeguard the environment. One could easily imagine a similar scenario involving the IMF.

Borrower governments, moreover, can find ways to observe the letter of loan conditionalities while evading or manipulating some of them. The availability of such stratagems, plus quirks in the IMF's own system of internal management, can point to ways of getting around tough-looking paper prescriptions for poorly performing debtor countries.[5] The IMF is strongest when it is at the start of a lending cycle—when, for instance, a nation is trying to recuperate after a conflict or an emerging market country is facing a financial crisis and does not already owe the IMF a lot of money. As the case of Argentina illustrates, once the Fund has made large loans to a country, the need to protect the IMF's own finances may dampen the ardor with which it enforces conditions.[6]

Conditionality and Self-Government

Of greatest concern, perhaps, is the inherent tension between conditions imposed by an outside lender and the cardinal democratic principle of consent. By their very nature, IMF conditions arise not from debate and discussion within a society, but come rather from unelected foreign experts. Locally made decisions lose relevance as conditionality ties the hands of domestic political actors. Does it matter what elected officials are choosing when the fate of the local economy is being decided by technical specialists and managers in an IMF office somewhere?

In recent years, the IMF's focus on "good governance" and corruption-fighting has led it into subjects with a deep and important connection to democracy and its prospects of spreading and deepening across and within whole countries and regions of the world. Does the IMF, of all the international organizations that might take on such a task, have either the mandate or the best tools for tackling it? After all, the Fund's programs tend to be of a duration much shorter than that which all prior experience suggests is needed for the slow and bumpy work of building sounder institutions for the long term.[7]

Some argue, pointing to the European Union accession process, that the international community can do much to create a reform-friendly environment. The EU accession process is an exception, however. Most outside efforts to speed up democratic development achieve little and may even slow the rise of prodemocratic dynamics within a country. One recent study finds no evidence, even since the end of the Cold War, that foreign aid promotes democracy.[8] While external pressures for things such as greater transparency in government spending may impede the most extreme forms of public thievery, the IMF by and large lacks the knowledge and other resources needed to fight corruption effectively in borrower countries.

The IMF's impact on democracy is amplified during international economic and financial crises, especially the rapid and gravely consequential sort that have become more common in recent years. Money now flies across borders faster than ever, while governments struggle to keep up. Crises always tend to direct more decision-making power to the center: In borrower countries this means mostly the finance ministry and central bank, while in the IMF it means the G-7 countries (especially the United States but also some European nations and Japan) and the creditors (typically banks or large bondholding financial institutions) domiciled therein. The more representative parts of the borrower government drop into the shadows. In weak, resource-starved postconflict societies such as East Timor, Mozambique, or Afghanistan, all these concerns take on an even more intense form, since there institutions such as the Fund and World Bank face so few checks on their actions.

The balance of influence (as reflected in "quotas"[9] and voting power) between the few states that provide most of the dollars to the IMF and the many states that are borrowing or would like to borrow from the Fund also exposes a key dilemma facing the institution. Today, more than four-fifths of the IMF's member states are developing countries. Yet despite the changes in the number and the nature of the member countries, the quotas and the overall vote share for which developing states account have remained around 37.5 and 40 percent, respectively.[10] To provide a basis for comparison: The United States, which has the world's largest economy (worth roughly US$11 trillion per year) and is the IMF's largest single monetary stakeholder, had as of late 2002 a vote share just slightly exceeding 17 percent.

Is the current "one dollar, one or more votes" principle acceptable?

Should the Fund imitate the UN General Assembly and use the "one country, one vote" principle? How worrisome is it that both these principles violate the "one person, one vote" ethic with which democracy is usually identified?[11] Does it make sense for any financial institution to try to honor democratic rules, given the realities of money and the marketplace?

Size Matters

As much as it may leave to be desired from the standpoint of ideal justice, the reality of the international system is that economic and military might, territorial and demographic size, geopolitical calculations, and national interests still matter more than treaties. Trying to make global governance institutions run on the basis of unrealistic principles is always problematic and leads to artificial arrangements which, admirable though they may be in principle, are irrelevant or worse in practice.[12]

That said, there are things about the way the Fund is currently run that deepen its democratic deficit. These include an ad hoc and opaque leadership-selection process designed to please big shareholders (the United States and Europe); a Board of Executive Directors that overrepresents European countries (they hold a third of the seats); and the G-7 countries' habit of bypassing the Fund's normal management organs, which include not only the Executive Directors' Board but also the International Monetary and Financial Committee (IMFC). While the reality of the IMF's asymmetrical financing renders equality of participation in its decisions unrealistic, this would not be so bad were there checks and balances in place to protect weaker members and hold the powerful accountable. But there are not, and the resulting lack of accountability exceeds even the lopsided IMF voting structure as a standing affront to democratic principles. Among other things, democratic governance means clear lines of responsibility running from those making decisions to those affected. Power operates diffusely in international organizations, and people in developing countries are not soon likely to be able to hold major IMF shareholders accountable for the Fund's decisions.[13]

The original Bretton Woods agreement tried to counterbalance the asymmetrical power of institutions such as the IMF by providing that bigger shareholders should also carry more of the financial risk and burden. In recent years, however, the industrialized countries have for various reasons seen a steep decline—almost to zero—in the risks and costs that they must bear in order to hold sway within the IMF. If the Fund is to operate according to the larger vision underlying its creation, then new ways will have to be found to redress this balance.

While our discussion has highlighted the frequently undemocratic nature of IMF procedures, it is worth noting that even these can have positive implications for democracy. A recent analysis of the IMF's South Korea programs during the East Asian financial crisis of the late 1990s shows how this can happen.[14] One widely accepted storyline regarding this crisis holds that U.S. financial interests, acting through the U.S. Treasury Department and the IMF, pushed for changes in South Korea to suit the interests of the U.S. financial-services sector. Yet these changes, without necessarily being meant to do so, helped to brighten the prospects for democratic deepening and improved democratic governance by weakening the "crony capitalist" ties in South Korea between big business and certain domestic political actors, thereby opening the door to a larger degree of healthy competition in both the political and economic spheres.

The South Korean case points to the perhaps surprising conclusion that a little less democracy in one part of the international system might result in greater democracy in another part. Even though Korean democracy is of comparatively recent vintage, it has proved surprisingly resilient. Indeed, one could even argue that six years after the height of the financial crisis, Korea's democracy is stronger than ever: The country has recently weathered a contentious presidential election and subsequent failed impeachment attempt without anything resembling a "crisis of the regime." We point all this out *not* out of any desire to urge the provoking of systemic financial troubles with all the hardships these can inflict on ordinary citizens, but rather to draw attention to the complexity and unpredictability of the relations that can subsist between the IMF, economic crises, and democracy.

We should also note that the Korean crisis, like similar episodes in Brazil and Poland, was not without political costs. The credibility of the democratic system suffered for a time in all three countries when parties that had run successfully on development-oriented platforms changed course once in power and began to lean toward the kinds of macroeconomic adjustment and stabilization programs favored by the IMF. Unsurprisingly, voters became more cynical about political leaders and the connection between elections and public policies. The concomitance of government "ownership" of IMF programs coupled with politically cynical voters presents a conundrum: What does it mean for democracy if an improved economy comes at the price of a more disengaged or even disaffected electorate?

The answer to such quandaries may depend in part on the state of the country involved, and the depth of the challenges that democracy faces there. Very poor countries such as Burma, Congo-Kinshasa, Haiti, or Yemen will often also be among those where law-based democratic governance faces the greatest obstacles. When and if the Fund becomes involved in making loans to such a country, the IMF's dominance vis-à-vis the relevant national government is likely to be quite asymmetric, for such a government will almost certainly have nowhere else to turn. By contrast, borrower countries that qualify as "emerging market powers" (these could include such middle-income lands as Brazil, Russia, or Thailand) have greater domestic capacity and more options in global financial markets.

Two interlinked sets of changes could enhance the support that the IMF lends to democracy and democratic consolidation in particular countries as well as in the international system as a whole. The first type of change would seek to reform *how* the Fund does things by bringing its decision-making methods more into keeping with such democratic principles as consent and transparency. The second sort of change would seek to improve *what* the Fund actually does (and potentially can do) so as to bolster democracy both globally and in borrowing countries.

The first issue is important for practical as well as principled reasons. Democracy is about process, not just outcomes. The none-too-democratic nature of the IMF's decision-making processes means that, even if a "good" result comes about, it may happen at a cost in legitimacy and public trust that saps the Fund's effectiveness over the long run. Participation matters, whether in domestic programs aimed at helping individuals escape poverty and improve well-being, or in international lending focused on helping whole societies reach the same broad goals. As Montek Singh Ahluwalia, head of the IMF's own Office of Independent Evaluation, pointed out in November 2003 to the Club of Madrid, the Fund's decisions seem to come from a "black box." IMF officials often neglect to explain the precise reasons for conditions placed on loans, or to spell out the assumptions (and doubts) behind programs aimed at key goals such as restoring the external financial viability of an entire national economy. The upshot is greater leeway for intervention by major shareholders, leading the Fund to a forced optimism in program design, in turn adversely affecting the quality (and effectiveness) of its programs. Forcing the adoption of ambitious goals—and mandating their rapid achievement—is often more pleasing for the small policy circles that monitor these issues in donor countries or for the international financial markets than it is for the government of a country in trouble. The latter is likely to be already embattled and may often have no option but to sign an IMF agreement which, however ambitious and even desirable in economic terms, it may require policy changes with enormous short-term political costs.

Updating Bretton Woods

In order to enhance the IMF's effectiveness and make its positive impact on democracy direct and intentional rather than oblique and accidental, we suggest changes in the following areas:

Governance: The most pressing need is to reallocate quotas and seats on the Executive Board. Is it not odd that the Netherlands, with 16 million people, has more IMF voting power than India, with a population of more than a billion? Should countries located in Europe hold one out of every three seats on each of the IMF's key governing bodies? Africa's need for greater representation is widely recognized. Increasing the voting rights of developing countries is a more formidable challenge. Former Chilean finance minister Manuel Marfan and former French premier Lionel Jospin have made helpful and practical suggestions. Marfan has noted that a common feature of private-sector corporate governance is special safeguards for the rights of minority shareholders. Imitating this benchmark "best practice" in the IMF's case would suggest paying more systematic attention to the weaker borrower nations, whether or not board seats are added or change hands. Jospin has put forward the idea of increasing the relative voting share of smaller, poorer countries without affecting their quotas. Transparency would benefit from a simple step like publishing the minutes of the Board of Executive Directors promptly after each meeting, or dropping the current and rather murky "consensus" process in favor of recorded votes.

Leadership Selection: Like many international organizations, the IMF will always have to find a balance between fairness to those members who pay the bills and the greater legitimacy that comes from giving every member as much say as possible. But continuing to choose top Fund (and World Bank) officials through the current ad hoc and opaque process is a heavy blow to institutional credibility. How can the IMF praise transparency and meritocracy or decry the evils of cronyism while filling its own top slots through closed-door methods that no passably well-run private corporation (much less a democratic polity) would tolerate for an instant? It is long past time to drop the custom according to which the IMF managing director is always a European and the World Bank president is always a U.S. citizen, each chosen without a legitimate and credible search-and-selection process. For the sake of trust, comity, institutional authority, and a smaller democratic deficit, now is the time to adopt a more open and transparent way of filling the key jobs at the Fund and the Bank. Creating standing selection committees and adopting other clear rules would be good early steps.[15] Here too, though, a fine sense of balance will be needed. An international organization whose rules encourage the choice of officials whom key member states dislike is at risk of finding itself hollowed out by cutbacks or withdrawals of those members' support.

There is no shortage of proposals that might improve the governance of institutions such as the IMF or the World Bank. The problem, however, is that the countries (and their bureaucracies) which benefit from the status quo lack the incentives and thus the political will to push for any major changes in the structure and functioning of the highest levels of the Fund and the Bank. The organizational problems besetting the boards of directors, key shareholders groups, and top management strata of these institutions are far deeper and more entrenched than are the problems found among less exalted managers and staffers.

"Ownership": The sharp criticism that the Fund has taken regarding its burgeoning conditionalities has recently led to a greater emphasis on program "ownership" by the borrowing country. One reason for the success of the Brazil program in 2002 was that, with a presidential election impending, the IMF felt that it had little choice but to involve opposition candidates in its discussions. But precisely what constitutes ownership and who the owners are supposed to be are by no means settled questions. This problem is particularly acute in a democracy with weak checks and balances—the sort of place where a daring deputy minister might claim to speak for the government or even the nation, and get away with it. Moreover, the rise of "ownership" as a perceived *sine qua non* of successful Fund programs makes IMF intervention in nondemocratic borrower countries all the more problematic. Should the procedural requirements of Fund programs be different in democratic as opposed to nondemocratic countries? Any government that wants a loan badly enough will claim that it can commit its nation to the IMF's conditions, but what does that mean if the government in question does not rule by consent? Currently, IMF staffers are making highly political, inherently subjective decisions about questions such as these on a case-by-case, ad hoc basis.

"Surveillance": One of the key functions of the Fund when it was created was "surveillance" (or more broadly, evaluation). This function has waned of late. IMF surveillance reports typically lack candor, reflecting in part the Fund's newer sense of its role as a confidential advisor to governments. The IMF Independent Evaluation Office argues, however, that the advisor mission has gone poorly and should lapse quietly in favor of a fresh focus on doing better, more frequent, and more detailed surveillance reports. Better reports might foster a keener sense of how dubious and uncandid it is for an organization dominated by highly industrialized countries that find even modest deficit-cutting politically arduous at home to insist that far poorer countries must slash their deficits by whole percentage points every year. IMF surveillance reports—to say nothing about the levels of felt "ownership" in the programs that may result—would also benefit from engagement with wider casts of borrower-country stakeholders, including legislators, scholars, civil society groups, and the media. One option might be to involve the Fund more with the World Bank's Parliamentary Network, a group whose goal is to bring legislators into more contact with officials of the Bretton Woods institutions. Stronger surveillance can also promote transparency, an inherent characteristic of democracy, especially with regard to the distributional implications of budgets and other government policies. More candor is also in order when it comes to IMF analyses of the international system and its effects on poor countries. In recent years, the Fund has turned a blind eye to mounting evidence of serious shortcomings and instances of malfeasance and perverse incentives in global financial companies, even though these problems harmed poorer countries directly. An organization that commends the virtues of open economies must heed its own advice if it wishes to retain trust. The establishment in 2001 of the Independent Evaluation Office, whose published work we have been citing, was a step in the right direction. Let us hope that it is a harbinger of fresh efforts to let in light and air with an eye to strengthening the IMF.

A Star, or Just an Extra?

As we suggested above, among the most troubling issues raised by international financial crises is the degree to which elected governments must answer to external actors rather than domestic constituents. Leaders of developing democracies must steer between the Scylla of global financial markets and the Charybdis of demands from their own citizens. Campaign platforms meant to attract votes at home rarely meet with the approval of the IMF or global financial markets, and the latter may press an election winner such as South Korea's President Kim Dae Jung to change course after taking office.

On the merits, the new course might turn out to be a good idea. It may boost the economy and improve the country's standing in global financial markets and attractiveness to foreign investors. But a sharp switch spurred from outside also risks turning citizens into cynics by corroding their trust in elected leaders and perhaps even democracy as such. A healthy offsetting effect, as in the Korean case, might come in the form of a blow that the episode strikes against overly cozy relations between business and the political world. The East Asian financial crisis exposed the rent-seeking and sweetheart deals at the heart of the way-too-cozy relationship between Korea's large enterprises *(chaebol)* and the major political parties. The economic and financial reforms enacted since the crisis have limited state interference in markets and accorded more scope to competition—both steps which have been good for Korean democracy.

The Fund's strength vis-à-vis borrowing members (especially low-income countries) masks its own weakness in the global system and is symptomatic of a more general problem: the weakness of multilateral decision-making mechanisms to deal with even the most pressing global issues. At times of financial crisis, for instance, it is not the IMF but the U.S. Treasury Department whose decisions matter most. And if such crises not only continue but even get worse, as former U.S. treasury secretary Robert Rubin predicts they will,[16] the IMF's lack of capacity (a result of shortsightedness among its major shareholders) may force the Fund to meet the next crisis by saddling borrower countries with massive adjustment burdens that are almost certain to harm democratic governance.

The lack of global means to deal with global problems seems to result in part from the uneven dynamics of globalization itself. The complex sets of changes which travel under that rubric have unfolded more rapidly and extensively in areas of greatest concern to industrialized countries (including finance and trade in consumer goods). Areas that are most urgent to countries whose economies are not so well developed, such as labor flows, have seen globalization lag. At the 2002 International Conference on Financing for Development at Monterrey, Mexico, representatives from the governments of both rich and poor countries agreed that the main responsibility for development lies within developing countries themselves. But this assumes that such countries will have due freedom of action regarding their own policies. At what point do things such as IMF conditionalities so limit a developing nation's autonomy that its responsibility for developing itself becomes moot? The gathering at Monterrey also broadly agreed that key multilateral institutions such as the Fund are now being run in ways that cry out for updating, and that developing countries should have a greater voice. Currently, several years after Monterrey, the first consensus continues to receive emphasis while the second seems in danger of being forgotten.[17]

The IMF began just over six decades ago as a venue for international monetary cooperation. Today, it has become a tool for helping poorer countries with the immense task of achieving capitalist "development" and all the broad, deep, and disconcerting yet elusive changes which that term implies. This has meant "mission creep" and a proliferation of new aims that IMF officials say they must embrace, given their need to grapple with a plethora of complex interrelationships among numerous economic, structural, and institutional variables. While many critics decry this situation as a source of confusion, what concerns us more are the implications that such a widening agenda may hold for democracy. Students of bureaucracy have long noted that when missions begin springing up like desert flowers after a rainstorm, the clear incentives and institutional autonomy that a typical bureaucracy needs in order to function well can become prone to politicization and perhaps to other forms of distortion as well. The skewed governance structure and lack of competition that currently characterize the IMF only heighten this disturbing prospect in ways that should give grave pause to anyone who cares about the plight of democracy in borrower countries.

In many ways, the Fund's predicament reflects the sad folly of the global community's penchant for criticizing an institution, then asking it to take on more tasks, and then critiquing it all the more harshly after it fails to check off all the boxes on its new and longer "to-do" list. One cure for this might be to distribute some of the "burdens of the Fund" to other regional and international organizations (making both types stronger for the purpose). Tailoring the solution as carefully as possible will also be wise. In middle-income countries, the Fund generally plays a positive role. Where the system is really broken is in its dealings with small, structurally weak, low-income countries (think of the microstates of West Africa) where problems have deep roots and hopes for democracy are all too often the slenderest of reeds.

While in principle strengthening other international organizations would increase competition, thereby helping borrowing countries, finding the financial resources to undertake this task is a difficult problem. One possibility is to link a country's IMF quota to the share of the UN budget that it pays, with exceptions made for "outliers" such as both the poorest countries and the five permanent members of the Security Council. Such a scheme would recognize both the limits to the notion that global-governance institutions can operate according to fully democratic internal rules, and the fairness of asking those who have more power within such institutions to pay for a larger share of their upkeep. It might also force the global community to recognize that critical political issues such as democracy should be addressed by a multilateral institution that is expressly political, rather than be outsourced by stealth to a financial institution.

The heated nature of debates about the Fund is a sign of how great have become the tensions between the mid–twentieth-century design of the typical multilateral institution and the realities of the early twenty-first–century world. In a sense, the Fund has become a scapegoat for stronger forces (global capital markets in general, the U.S. Treasury Department in particular) that buffet even the IMF itself. It is predictable that by taking on such ambitious agendas and trying to be all things to all members, the Fund often seems to succeed mainly in disappointing expectations and becoming an institutional stand-in for problems larger than its own failings.

Despite the Fund's technocratic persona, its actions are highly political, often driven by geopolitical calculations. Not surprisingly, its actions have significant political ramifications. The Fund is not an independent actor and decision making in the institution reflects its governance. The Fund's less-than-transparent procedures and tendency to press rapid and highly centralized decision-making styles on borrower countries are plainly in tension with democracy's emphases on deliberation and participation in the making of public policy. In countries with reasonably strong institutions this tension is usually manageable, and as the South Korean case has shown, can even help democracy in the longer term. Fund officials can help matters and boost "ownership" by working not only with officeholders but also with leaders of the democratic opposition, as happened not only in South Korea but also in Brazil, where the main opposition candidate subsequently became president.

Democracy promotion is not a science. In truth, we know very little about it. The IMF has neither the mandate nor the skills to undertake such an enormously challenging task, and asking Fund officials to do so would be shortsighted and even dangerous. Yet the Fund can support democracy indirectly, both by promoting transparency in national economic policies and budgetary practices and by taking care to consult with key democratic institutions. At the same time, an increased awareness might lead the institution to adhere to a form of "Hippocratic oath" ("first do no harm") that would make it systematically more conscious of the harmful implications that its procedures and programs might have for democracy in a borrower nation.

A financial monopoly whose own internal governance is undemocratic should not be anyone's idea of a great tool for boosting democracy around the world. At the same time, there are solid intrinsic reasons why international organizations cannot be democratic. What to do, then? No Solomonic solution is in the offing. We hope that some or all of the modest proposals and limited course corrections outlined above might make the Fund a more transparent, more fairly run, and more democracy-aware (if not always flat-out democracy-friendly) organization. Should none of our suggestions prove feasible, we would then be moved to ask whether the Fund could do more for democracy by doing less. After all, a narrowly technocratic Fund might be democratically preferable to one that circumscribes the ability of citizens to make decisions about their own country's future.

NOTES

1. Bretton Woods is the name of the rural New Hampshire resort hotel where the conference that produced the agreement took place. The agreement was history's first-ever instance of a fully negotiated instrument designed to govern monetary relations among sovereign states. For a glance at the history of the IMF visit its website at *www.imf.org*. For a detailed recent account of the IMF, see James Boughton, *The Silent Revolution: The IMF, 1979–89* (Washington, D.C.: IMF, 2002).

2. Bank for International Settlement, *www.bis.org/statistics/histstats8.htm.*

3. Cf. Joseph Stiglitz, *Globalization and Its Discontents* (New York: Norton, 2002); Kenneth Rogoff, "The IMF Strikes Back," *Foreign Policy,* January–February 2003, 38–46; and Martin Wolf, *Why Globalization Works* (New Haven: Yale University Press, 2004).

4. The original thinking behind conditionality was to protect the Fund by requiring prior agreements that IMF officials thought would cut the risk of borrower noncompliance. This early reason has since given way to rationales ranging from the need to "signal" world capital markets that a country is a safe and even promising place to invest, to the need to tie a government's hands in the face of domestic political opposition roused by the hardships that IMF-mandated measures can cause. See Devesh Kapur, "Conditionality and Its Alternatives," Harvard University, unpubl. ms., 2004.

5. The custom is for the IMF to grant a "waiver" that is really a disguised debt

rollover. IMF Independent Evaluation Office, *Report on Prolonged Use of IMF Resources* (Washington, D.C.: IMF, 2002).

6. IMF Independent Evaluation Office, *Report on the Evaluation of the Role of the IMF in Argentina, 1991–2001* (Washington, D.C.: IMF, 2004).

7. On outside efforts to jump-start democracy in developing countries, see the exchange between Thomas Carothers and his critics in the January and July 2002 issues of the *Journal of Democracy.*

8. Stephen Knack, "Does Foreign Aid Promote Democracy?" *International Studies Quarterly* 48 (March 2004): 251–66.

9. Each member of the IMF receives a "quota" whose size depends on that country's weight in the world economy, as well as the amount of money that it puts up upon joining the Fund. Most of the IMF's money comes from quota subscriptions. A member's quota determines its voting power and maximum financial commitment to the Fund. It also affects the size of the country's access to IMF financing. Total quotas at the end of August 2003 were worth roughly US$296 billion.

10. In fact, the developing countries' overall vote share is even less, since these figures include countries from the ex-Soviet world that view themselves as future EU members.

11. Robert A. Dahl, "Can International Organizations Be Democratic?" in Ian Shapiro and Casiano Hacker-Cordon, eds., *Democracy's Edges* (Cambridge: Cambridge University Press, 1997), 19–36.

12. Ngaire Woods and Amrita Narlikar, "Governance and the Limits of Accountability: The WTO, the IMF, and the World Bank," *International Social Science Journal* 53 (December 2001): 569–83.

13. The limited accountability of major shareholders goes a long way toward explaining why Fund member states fight so hard to keep or increase their quotas, which are the basis of voting power in the Fund. Since IMF quotas involve only contingent rather than real liabilities, and since few IMF loans ever go into default, subscribing to quotas as a way of increasing vote share has little downside.

14. Soogil Young, "The IMF, Economic Stabilization, and Democratic Politics: The Korean Case," paper presented at the Second General Assembly of the Club of Madrid, November 2003.

15. For more detail, see Moisés Naím, "End the Fund Succession Fiasco," *Financial Times* (London), 4 March 2004; Devesh Kapur, "Who Gets to Run the World?" *Foreign Policy,* November–December 2000, 44–50; and Miles Kahler, *Leadership Selection in the Major Multilaterals* (Washington, D.C.: Institute for International Economics, 2001).

16. Robert Rubin and Jacob Weisberg, *In an Uncertain World: Tough Choices from Wall Street to Washington* (New York: Random House, 2003).

17. Ariel Buira, ed., *Challenges to the World Bank and IMF: Developing-Country Perspectives* (London: Anthem, 2003).