ıy directions. For lack of a common direction, some analysts, like Anne-Marie ıghter, view global governance as fragmented or disaggregated – an uncoordinated ımash. Others view this state of affairs as simply inevitable bumps on the long road more full-fledged world government. Sorting out the forces that ultimately determine overall shape of global governance is yet another key item on the scholarly agenda. he first selection in this section covers one of the most important governance tutions, the International Monetary Fund. Reviewing data from studies of the 's programs, James Vreeland describes how an institution originally intended to er financial stability by assisting countries with balance-of-payments problems – ea where it has had some success – has taken on a broader role to promote omic development, an area where its effects appear weak and have come at the of greater inequality. Its conditional lending is controversial, in part because it ges on state sovereignty, but Vreeland finds that IMF involvement in state es need not lead to drastic cuts in social spending. Another key economic nance institution is the World Trade Organization, founded in 1995 with the ry goals of promoting free trade and settling trade disputes peacefully. Ann ıg and Richard Higgott show that the WTO faces numerous challenges – for le, how to avoid protectionist reactions to economic downturns in rich ies, how to give a stronger voice to emerging economies, and how to balance ıds for further liberalization with fairness to workers.

e-Marie Slaughter presents a broader picture of global governance, showing etworks of government officials such as regulators, judges, and central bankers ystallized to address common problems, acquiring at least some of the authority form many of the functions of a world government … without the form." This ional bridge building, she argues, is gradually shaping a new world order in states remain key players but become embedded in a wider set of relationships. mple of such embedding is the work of the International Organization for dization (ISO), described by Craig Murphy and JoAnne Yates. ISO is a ernmental organization that brings government experts together with industry ıtatives in standard-setting bodies that, through voluntary consensus building, on guidelines for a wide range of activities, from manufacturing processes to tions for screw threads to quality control. A striking example of its impact, d in the selection, is the standardization it achieved years ago for the dimensions t containers, which greatly stimulated the expansion of cross-ocean trade.

inal two selections address new developments in the governance of global Richard Dodgson, Kelley Lee, and Nick Drager suggest that globalization more difficult for governments to take care of their citizens' health – rder health risks," such as new epidemics, are a case in point. Instead of relying overnmental cooperation, they advocate a more ambitious governance system states cooperate with nonstate actors, for example through public-private ips, to address a wider range of issues. This approach is exemplified by global s against the marketing of breast milk substitutes and against tobacco use. easingly important "nonstate actor" is the Gates Foundation, the largest ilanthropic organization in the world. David McCoy and his colleagues show rtue of its considerable assets, the foundation helps to set priorities in global vernance, for example by emphasizing issues like HIV/AIDS and malaria n other health problems. Its policy leverage shapes global public health l more broadly illustrates a new trend in global governance.

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The International Monetary Fund

James Vreeland

At the writing of this book, 49 developing countries around the world – whose populations account for more than one billion people – are participating in economic programs supported by the International Monetary Fund (IMF or Fund). These "IMF programs" grant the governments of these countries access to IMF loans, but access to the loans can be cut off if the governments fail to comply with specific policy conditions. IMF policy conditions impact the lives of individuals living in these countries in intimate ways: the policy conditions address government expenditures, so IMF programs help determine whether roads, schools, or debt repayment take priority. The policy conditions also address interest rates, so they may affect one's ability to borrow to purchase a home or invest in a business. IMF policy conditions often address the value of the national currency, so IMF programs may impact the very purchasing power of the money in people's pockets.

Not surprisingly, the IMF is well known throughout the developing world – to the elites and the masses alike. The organization often appears to exercise as much or even more authority than their own governments. Yet, the IMF is less familiar to average citizens in the developed world. And, to many throughout the world, the actual functioning of the organization is unknown or misunderstood. Unfounded opinion about the IMF abounds among people who often lump it together with other international institutions like the World Bank and the World Trade Organization, even though the administration and purposes of the IMF are quite distinct from these other international institutions.

Founded in the wake of the Great Depression, the IMF can be thought of as an international credit union with access to a pool of resources provided by the subscriptions of its members, which include nearly every country in the world. The

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of a country's contribution depends on the country's economic dominance, hence, bulk of the resources of the IMF come from the developed world. The Fund can from this pool of resources to countries facing economic problems. These days, only countries that borrow from the IMF come from the developing world.

IF loans can be thought of as a form of insurance for governments against the bility of an economic crisis. Such insurance, however, introduces something omists call "moral hazard": the prospect of receiving assistance in the face of an omic crisis in the form of an IMF loan may itself lower a government's incentive oid the bad economic policies that cause economic crises in the first place.

counter moral hazard, the IMF imposes ***conditionality***: governments are ired to follow what the IMF deems as "good" policies in return for the continued irsements of the IMF loan. Thus, one can think of an IMF program as having components: the ***loan*** and the ***conditions*** attached to the loan. The goal of this gement is to first stabilize a country facing a balance of payments crisis and then omote growth and the reduction of poverty.

t, conditionality is controversial. If the policies imposed by the IMF are so for countries, why must governments be enticed through conditional lending? e heart of this question is national sovereignty, and beyond purely economic lines, the imposition of IMF programs is heavily influenced by international lomestic politics.

ernational politics play a role because powerful members sometimes use their nce at the IMF to pursue political goals. Votes at the IMF, like contributions, egged to a country's economic size, so economically powerful countries have say at the IMF than other countries, and can pressure the Fund to do their ng. Governments who are considered important allies of the IMF's most ntial members – like the United States – sometimes receive preferential treatment the IMF. The IMF may bail them out of economic crises with large loans even y fail to comply with IMF conditions of changing economic policy.

, at the domestic level of politics in developing countries, there are other cases governments actually want IMF conditions to be imposed. These governments the assistance of the international institution to get around domestic political raints and force changes in economic policy. Governments can use IMF condi- ity to gain leverage over domestic opposition to policy change. Sometimes, such changes result in superior outcomes for society, but often IMF leverage is used otect elites and make others bear the cost of an economic crisis.

fortunately, there is scant evidence of the success of IMF conditionality. Studies even found that IMF programs hurt economic growth. A further effect of IMF ams is the increase of income inequality. This is not just because the IMF is ed with countries that already have economic problems – even accounting for ict, these disappointing results hold.

re is little consensus over why IMF programs have the perverse effects that they ome argue that the influence of international political pressures has led to low of compliance with IMF conditionality. As a result, IMF lending simply lizes the continuation of bad economic policies. Others argue that the economic es imposed by the IMF are the wrong ones. Instead of imposing austerity, the should promote economic stimulus packages so that developing countries can their way out of economic problems. Still others argue that failure is due to

domestic politics. Policy may change under IMF programs, but governments implement only selected reforms or impose partial reform with the goal of insulating domestic political elites and placing the burden of the economic crisis on labor and the poor. Strangely, with all of these various points of view, there is a broad based consensus that the IMF should scale back its operations. Many feel that the IMF should get out of the development business.

Recently, however, the IMF has made a bold new commitment to promote economic development through continued conditional lending. Thus, IMF programs remain a presence throughout most of the developing world. In some countries, participation in IMF programs is business as usual, a routine way of life. [...]

The Effects of IMF Programs on the Balance of Payments

If IMF programs have any effect, it should be on the balance of payments (BOP). First and foremost, the Articles of Agreement mandate the IMF to address problems in this area. What is the balance of payments? The IMF defines a country's overall balance of payments as the sum of the "current account," the "capital account," and the "financial account" plus "net errors and omissions." The ***current account*** of the balance of payments is the credits minus the debits of goods, services, income, and current transfers. The ***capital account*** refers mainly to transfers of fixed assets and nonproduced, nonfinancial assets. The ***financial account*** is the net sum of the balance of direct investment, portfolio investment and other investment transactions. ***Net errors and omissions*** reflect statistical inconsistencies in the recording of entries and are included so that all debit and credit entries in the balance of payments statement sum to zero. By construction (of net errors and omissions), the overall balance of payments is equal to net changes in "reserves and related items," the sum of transactions in reserve assets, exceptional financing, and use of Fund credit and loans.

Many studies have looked at the effect of IMF programs on both the overall BOP and the current account component of the BOP. The IMF mandate to address BOP problems has been clear throughout its history. The Articles of Agreement are explicit that IMF lending should go to countries experiencing BOP problems. The deficit country is taking in more imports or fixed assets or finance than it is generating through exports – the immediate purpose of an IMF arrangement is to provide a loan so that foreign debts can continue to be serviced and necessary imports can be purchased. The loan is intended to soften the blow as adjustments are made as the demand for imports and foreign financing is cut. Demand can be addressed in many ways: devaluation, where the demand for imports is cut by effectively raising their domestic price; the reduction of money supply by raising interest rates or limiting credit creation; and fiscal austerity, where governments reduce consumption both by raising taxes and by spending less. Yet it is not obvious that the IMF program will help. If governments fail to comply with IMF policy conditions, or if the IMF policies are not sufficient, BOP problems can persist. Indeed, if the IMF program causes a drastic contraction of the economy, it is possible for the BOP situation to worsen.

What have studies found? The broad consensus is that the IMF has had success in addressing balance of payments problems. For example, in an early study conducted

ıomist and professor of Latino Studies at the University of California, Santa Manuel Pastor, IMF programs were found to have a positive, statistically sig- effect on the BOP, using a before-after methodology analyzing Latin American es during 1965–81. Another early study using a before-after approach to Latin America, by Tony Killick, along with colleagues Moazzam Malik and . Manuel, also found a statistically significant positive effect of IMF programs BOP. [...]

ɔmic Growth

; the effect of IMF programs on economic development? For some, this is the nportant question. Sustainable economic development and prosperity address of the other economic problems discussed above. An economy that is growing ɔid or afford to sustain BOP and fiscal deficits, and can afford to maintain some of inflation. Economic development is also associated with numerous impor- dicators of quality of life for people. Some argue, however, that economic ı is not and should not be a goal of the IMF. They point out that the original e of the IMF was to address balance of payments problems and that the focus nomic growth is something that developed over time. The claim is that the as never intended to promote economic growth.

this is not completely true. The Articles of Agreement call upon the IMF to e members "with opportunity to correct maladjustments in their balance of nts ***without resorting to measures destructive of national or international prosper-*** mphasis added]. This certainly indicates that the IMF should at least not hurt cts for economic growth.

Report of the Executive Directors for the First Annual Meeting of the Board ernors in 1946 was even more explicit:

> function of the Fund is to aid members in maintaining arrangements that promote balanced expansion of international trade and investment and in this way ***contribute ɪe maintenance of high levels of employment and real income.***

from the first meeting of the governing body of the IMF, high levels of yment and income were central.

n though the IMF shifted its focus from the industrialized world to the ɔping world, the importance of promoting national prosperity remained. In he IMF has become increasingly concerned with promoting growth and ssing poverty over time. As Michel Camdessus, the IMF Managing Director 1987 to 2000, described,

> r primary objective is growth ... It is toward growth that our programs and their ıditionality are aimed. It is with a view toward growth that we carry out our special ɔonsibility of helping to correct balance of payments disequilibria and, more generally, eliminate obstructive macroeconomic imbalances. When I refer to growth, I mean h-quality growth, not ... growth for the privileged few, leaving the poor with nothing : empty promises.

Managing Director Horst Köhler, who took the helm at the IMF after Camdessus, emphasized the importance of promoting world financial stability, but he also echoed the views of his predecessor, contending that "the IMF should strive to promote non-inflationary economic growth that benefits all people of the world."

How effective has the IMF been at promoting economic growth? Not very. Not only is evidence of growth promotion weak, recent studies even show that IMF programs have a significant ***negative*** effect on economic growth. Early studies consistently showed no statistically significant effect. Out of nine before-after studies from 1978 to 1995, covering different countries, regions, and time spans, only one reported a significant positive effect. Four of the others reported no effect; two reported a statistically insignificant negative effect; and one reported an insignificant positive effect. Using with-without comparisons, results were similar – some show insignificant positive effects, others insignificant negative effects, still others show no effect at all, but none of them show a statistically significant effect.

With more sophisticated methodology, new results emerged. Khan's 1990 study, which addressed nonrandom selection, showed a significant negative effect on growth in the short run, with the adverse effects on growth diminishing thereafter. In his study published in 1994, Conway built upon this result using an advanced technique to control for nonrandom selection on observed variables. He showed that IMF programs have an initial significant negative effect on growth, but a significant *positive* effect within three years. The take-away point of Conway's study is that IMF programs start out badly but end well.

The Conway study had a profound impact. The result made a lot of sense. As IMF economists Nadeem Ul Haque and Mohsin Khan reported in 1998: "In the case of growth, the consensus seems to be that output will be depressed in the short run as the demand-reducing elements of the policy package dominate. Over time the structural reform elements of the program start to take effect and growth begins to rise." A subsequent study by IMF economists Louis Dicks-Mireaux, Mauro Mecagni, and Susan Schadler provided further evidence, showing that ESAF programs from the 1986–91 period appeared to have a statistically significant positive effect on output growth. This study used an advanced methodology to deal with the selection problem. It then went further, however, by testing some of the statistical assumptions underlying the model. They found that many of the assumptions were dubious, and this caused them to raise doubts about the reliability of the statistical findings.

Then a series of studies found a statistically significant negative effect on growth, using similarly advanced statistical techniques. The 2000 study by political scientist Adam Przeworski and me controlled for nonrandom selection on unobserved variables like "political will" and "trust." The analysis on 79 countries from 1971 to 1990 showed a statistically significant negative effect on annual output growth of about 1.5 percent. Similar results were obtained on a larger sample including 135 countries from 1951 to 1990. No evidence of a long run positive effect was found.

In their 2003 study of Latin America, economists Michael Hutchison of University of California, Santa Cruz, and Ilan Noy of University of Hawaii show that IMF programs have a negative effect on economic growth. In fact, they show that the effect is worse for countries that "successfully" complete programs. This raises an important point that is addressed in the next chapter on compliance: even – indeed, *especially* – countries that complete IMF programs experience lower growth.

their study, published in 2005, economists Robert Barro and Jong-Wha Lee also d disappointing results. Using an instrumental variable approach to address the tion problem, they found that IMF programs have a negative effect in the short that is not statistically significant, and a strong statistically significant ***negative*** t on economic growth in the long run. This result runs directly counter to the ensus described by Haque and Khan in 1998. Finally, in a study published in) that also uses an instrumental variables approach to the selection problem, omist Axel Dreher further confirms that IMF programs lower growth – his results deal with compliance and are discussed in the next chapter. Dreher finds that pliance somewhat mitigates this effect, but even for countries that comply the t is negative.

, the newly emerging consensus is that IMF programs hurt economic growth. The l contractionary effect of IMF programs is really not surprising. Some economists : IMF have been quite forthright about why. IMF economist Vito Tanzi, for examas argued that IMF programs induce governments to save on public investment, nefarious consequences for growth. IMF economists Mario Blejer and Adrienne sty point out that the high real interest rates induce good firms to shut down ; with bad ones, which can also hurt growth. Plus, there is the straightforward : of IMF austerity cutting demand, which drives down economic growth. [...]

ome Distribution and Social Spending

otable that studies of the effect of IMF programs on BOP, budget deficits, inflation, growth reach different conclusions, depending on the methodology and data oyed. This is not so with respect to income distribution. There have been three s using three different methodologies and three different data sets. All come to the conclusion: typically, IMF programs exacerbate income inequality.

itor conducted the first study in 1987, using the before-after approach to analyze 's share of income in Latin America during 1965–81. His conclusion was strong: single most consistent effect the IMF seems to have is the redistribution of ne away from workers." Pastor's study was path breaking, but the early study was :d by the methodology, which did not account for nonrandom selection, and ise it looked only at Latin America. These limitations were addressed by a young ar at Harvard University, Gopal Garuda, who published in 2000 his study of the of IMF programs on overall income distribution. Garuda looked at a standard of overall income inequality called the "Gini coefficient." He addressed the ion problem by estimating the propensity of countries to participate in IMF ams, using a statistical model similar to the one presented in Chapter 3. Then he ared countries with and without IMF programs that had similar circumstances ropensities" to participate in IMF programs. One interesting new finding da discovered is that when countries unlikely to participate in IMF programs do ipate, income inequality does not increase. However, for countries that are likely rticipate, IMF programs exacerbate income inequality. The Garuda study was :d by the small amount of data on Gini coefficients that are available – this is why corporated a selection model within a with-without framework. He did not have gh data to employ a standard selection model.

In a study I published in 2002, the limited data problem was resolved by just looking at the manufacturing sector of the economy. The data on labor's share of earnings from manufacturing are available for 2,095 observations of 110 countries from 1961 to 1993. With these data, a fully parameterized selection model is possible. The result of the study confirmed the two it built upon: IMF programs increase income inequality. [...]

Conclusion

Evaluating the effects of IMF programs is analogous to evaluating the effects of medical treatments. If one were to compare the health of people undergoing medical treatment to people not, one might come to the quick conclusion that medical treatments hurt patients, because they are much less healthy than the rest of the population. This is obviously because people only go to the doctor when they are sick. Yet, some medical treatments have been found to be helpful, while others are benign or even malignant. Before coming to such conclusions, one must address the selection problem – under what circumstances is treatment applied?

Researchers have addressed the selection problem when analyzing the effects of IMF programs in various ways with increasing degrees of sophistication. Nevertheless, the conclusions in the literature are tentative. With each generation of studies come new and often contradictory findings.

According to the most recent studies and reviews, the IMF seems to be most effective in addressing balance of payments problems. It is less effective in addressing inflation. And recent studies show pernicious effects on economic growth. IMF programs exacerbate income inequality according to all studies that look directly at this question. In the area of social spending, the most recent study shows that spending on health and education may increase in dictatorships, where little is spent to begin with, but IMF programs make democracies that participate in IMF programs look more like dictatorships when it comes to spending on the poor.