

Chapter 9

Welfare and Economic Relations

In welfare and economic relations, as in security, there is a dilemma which sets the parameters for international cooperation and governance. The welfare dilemma arises in an international economy in which each state can, without the intervention of a central authority, decide on its own trade and monetary policies. Thus each state may try to increase its share of the economic pie by raising tariffs, imposing import restrictions, or devaluing its currency. If, however, all or most states seek to increase their share of the economic pie at the expense of other states (i.e. through 'beggar thy neighbour' policies), some may achieve a degree of short-term success; in the long term, however, the shares will stop growing while the overall pie will shrink. The welfare dilemma describes a social trap in which trade or monetary policies aimed at increasing welfare for individual states place both the community of states collectively and also each state individually in a worse situation than would have been the case with effective international cooperation and governance. Achieving such cooperation is further complicated by conflicts about the distribution of gains from cooperation as well as the ability of domestic interest groups to block international cooperation and governance.

We shall now see whether and to what extent international organizations can help to overcome obstacles to international cooperation and governance. We shall limit our discussion to a few, but central issue areas and to those international organizations specialized on questions of welfare and economic relations. We shall look in some detail at international trade relations – global: the World Trade Organization (WTO); European: the European Union (EU) – international monetary relations – global: the International Monetary Fund (IMF); European: the EU – and disparities in development (the World Bank Group).

Global trade relations: the WTO

The welfare dilemma can lead to individually and collectively undesirable results in international trade relations if states try to increase their own share of global trade at the expense of others through tariffs and non-tariff barriers. In this situation states can benefit from interna-

tional cooperation and governance, but cooperation will fail if states cannot agree on joint policy programmes. If international organizations want to contribute to cooperation, their activities must therefore be directed at the generation and specification of policy programmes as well as the guarantee of their uniform and reliable interpretation and implementation. The activities of the WTO serve as examples of institutionalized attempts to overcome barriers to cooperation in global trade relations.

Policy programme of the WTO

Global trade relations are embedded into a limited liberal world trade order. The General Agreement on Tariffs and Trade (GATT) of 1947 was provisionally established as a substitute for the failed international trade organization (ITO), in the form of a governmental agreement regulating international trade relations (see Chapter 3). Since 1994 the revised GATT, the General Agreement on Trade in Services (GATS) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) have formed the programmatic core of the newly created WTO (Cohn 2002: 216–8; Wilkinson 2000: 11–30). Thus, the WTO combines norms and rules aimed at the realization of liberal trade relations. Yet, neither GATT nor the WTO have established a world trade order based on ‘pure liberalism’; they are committed to ‘embedded liberalism’. They thus strive for liberal trade relations while at the same time allowing states to shield their national markets from the global market to the extent necessary for the pursuit of domestic economic steering and social policy measures (Lipson 1983: 241; Ruggie 1983, 1994). However, the creation of the WTO also brought along a softening of the principle of ‘embedded liberalism’ in favour of ‘pure liberalism’ (Ruggie 1994; see Chapter 3).

The regulative programme of the WTO, complemented by some redistributive elements, is only to a small extent the result of programme decisions of the international organization itself. The original GATT (and later extensions and alterations) already contains the constitutive norms and rules which still govern international trade relations today under the WTO (Matsushita et al. 2004; Senti 2000). The nucleus of the WTO programme is the norm of non-discrimination. This norm obliges all 153 member states (as of the end of 2010) to guarantee products of foreign origin treatment as if they were national products and to accord each other most-favoured-nation status. More precisely, national treatment is defined as follows:

The products of the territory of any contracting party imported into the territory of any other contracting party shall be accorded treatment no less favourable than that accorded to like products of

national origin affecting their competition, distribution

The most-favoured-nation privilege or immunity originating in or immediately and unconditionally destined for the territory (GATT 1947). Thus, it is excluded with respect to markets (Beise 2001) and free-trade unions and free-trade partners is permitted (24, GATT 1947) or to create trade rather than It is on this basis the European Union (EU)

The GATT obligation by limiting restrictions in the form of duties are to strive for their re-convened by the Ministerial Council, or (109–11). The Ministerial organ of the WTO, states are represented decisions are normally negotiation is the domain of the WTO. This holds which the Ministerial Council be discussed in detail deals at the conclusion

The WTO has succeeded compared with the original has gradually evolved but considerably improved WTO. In the Uruguay Round had been insufficient in textiles, and trade in work (Beise 2001). Various protectionist measures and liberalization of trade in p

national origin in respect of all laws, regulations and requirements affecting their internal sale, offering for sale, purchase, transportation, distribution or use. (Article 3, paragraph 4, GATT 1947)

The most-favoured-nation norm requires that 'any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties' (Article 1, GATT 1947). Thus, discrimination between individual trade partners is excluded with regard both to access to and to participation in the markets (Beise 2001; Wilkinson 2000: 80–4). However, customs unions and free-trade zones, within which preferential treatment of trade partners is permitted, are excluded from these provisions (Article 24, GATT 1947) on the assumption that, on the whole, their effect is to create trade rather than merely to divert it (Wilkinson 2000: 93–5). It is on this basis that, for example, the internal market of the European Union (EU) is reconciled with GATT (Hix 2005: 382–5).

The GATT obliges member states to go beyond mere non-discrimination by limiting tariff and non-tariff trade barriers. In particular, restrictions in the form of import quotas are prohibited (Article 11, GATT 1947). Other non-tariff barriers as well as tariff barriers in the form of duties are tolerated in principle, but member states are obliged to strive for their reduction in recurring rounds of trade negotiations, convened by the Ministerial Conference of the WTO (formerly the GATT Council), on the principle of reciprocity (Wilkinson 2000: 109–11). The Ministerial Conference, the highest decision-making organ of the WTO, meets at least every two years and all member states are represented at it. Although majority decisions are possible, decisions are normally reached by consensus. Thus, intergovernmental negotiation is the dominant mode of programme-decision making in the WTO. This holds in particular for programme decisions through which the Ministerial Conference decides which trade restrictions shall be discussed in detail in the negotiating rounds and how the package deals at the conclusion of negotiating rounds will be structured.

The WTO has substantially widened its policy programmes when compared with the original GATT (Cohn 2002: 235). This expansion has gradually evolved over the decades of GATT negotiating rounds but considerably increased with the transition from GATT to the WTO. In the Uruguay Round (1986–94) those areas of trade which had been insufficiently dealt with in GATT, for example agriculture, textiles, and trade in services, were integrated into the WTO framework (Beise 2001). While these areas still remain subject to national protectionist measures, this was a significant first step towards liberalization of trade in products other than manufactured goods. This is

important because agricultural goods and textiles are especially significant for developing countries, given their comparative cost advantages, whereas trade in services will be more advantageous for industrialized countries where the services sector contributes up to 50 per cent or more of GNP. However, after the great programmatic expansion at the inception of the WTO attempts at further programmatic enlargement through intergovernmental negotiations in the Doha Development Round (launched in 2001) largely stalled throughout the 2000s. Growing divisions and conflicts of interest among and between developed countries led by the EU and the USA and emerging economies such as Brazil, China or India have blocked further programmatic progress on vital issues like agricultural trade or trade in services (see below) (Jones 2009).

The WTO policy programme allows for waivers to obligations undertaken in WTO agreements. The impact of such waivers should not be underestimated. One such waiver refers to the grave distortion of domestic markets because of superior foreign competition (the norm of market security). This allows states temporarily to protect one of their industrial sectors if they find themselves exposed to a considerable increase in imports from a specific foreign industrial sector which would seriously damage their own (Article 19, GATT 1947). It enables member states to reduce social hardships resulting from the liberalization of trade. However, the use of security measures such as the suspension of agreed trade concessions presupposes compensation for the trading partner affected (Beise 2001: 47–50). Another exception concerns preferential treatment for developing, and in particular least-developed, countries (the development norm), which suspends or at least lessens the obligation of reciprocity for developing countries. This should help to improve export opportunities for developing countries without forcing them to immediately open their own markets to imports from industrialized states. Indeed, the ban on discrimination and the requirement of most-favoured-nation status is partially lifted for trade between industrialized countries and developing countries.

Operations of the WTO

Although it is essential for international cooperation and governance in global trade relations that member states agree on norms and rules to establish and maintain a limited liberal trade order, the operational activities for which international organizations are responsible, when implementing the norms and rules, must not be neglected.

Thus, specifying the norms and rules set in the WTO's policy programmes is an important operational activity. The WTO programmes determine which trade barriers have to be removed and in which sector, but do not provide concrete prescriptions by which states must

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Furthermore, in the Round, agreements were the form of anti-subsidy. Thus it is no longer in subsidies or market (Hauser & Schanz 1995) Rounds also reduced national regulations to ment. The original GATT be applied in a discipline. However, this agreement was left to individual trade barriers. The new limit this abuse by prescribing to unnecessary trade barriers than absolutely necessary mental concerns. More states must be recognized public health, consumers

abide in their trade relations. The specification of existing programmes and the development of new ones within the WTO is the task of the recurring negotiating rounds (Cohn 2002: 231–75). The decision-making process in these negotiating rounds corresponds mainly to the intergovernmental-negotiations model, to a lesser extent also to the bureaucratic-politics model. The more decision-making revolves around questions of implementation of programmes which have already been agreed upon, the more the secretariat of the WTO influences the negotiating process. However, since representatives of all member states participate in these negotiations, processes of bureaucratic politics which involve WTO staff and member state representatives are still dominated by governments. After all, the negotiating rounds are clearly dominated by the interests of the large trading countries or blocs such as the USA and the EU and, more recently, emerging economies such as Brazil, China or India, which increasingly take the lead in the formation of developing countries' coalitions and a hard negotiating stance towards developed states.

The Kennedy Round (1964–67), the Tokyo Round (1973–79), and especially the Uruguay Round (1986–94), which gave birth to the WTO, are viewed as particularly successful. They brought about a reduction of tariffs for manufactured goods of one-third each time, so that on average tariffs, which in 1947 made up over 40 per cent of the import value of goods, were reduced by the year 2000 to approximately 3 per cent. Thus, tariffs as trade barriers were largely eliminated from international trade in industrial goods, after decades of multilateral negotiations (Hauser & Schanz 1995: 63–70).

Furthermore, in the Tokyo Round and especially in the Uruguay Round, agreements were reached to push back non-tariff trade barriers in the form of anti-subsidy and anti-dumping rules (Kahler 1995: 29–47). Thus it is no longer in the purview of states to simply determine dumping, subsidies or market distortions in order to justify countermeasures (Hauser & Schanz 1995: 72–110; Senti 2000). The Tokyo and Uruguay Rounds also reduced considerably the trade barriers set up through national regulations to protect public health, consumers and the environment. The original GATT had stipulated that such regulations must not be applied in a discriminatory fashion (Article 20, GATT 1947). However, this agreement was so vague that the definition of these regulations was left to individual states, which were able to exploit them as trade barriers. The new and much more precise rules of the WTO largely limit this abuse by prescribing that technical regulations must not give rise to unnecessary trade barriers, that is, they must not be more restrictive than absolutely necessary to satisfy public health, consumer and environmental concerns. Moreover, the national regulations of other member states must be recognized as valid if these are equally suitable to protect public health, consumers and the environment (Beise 2001: 47–50).

While the global trade order based on the WTO still retains some loopholes, the more recent negotiating rounds have contributed to increasing the scope and specificity of the norms and rules governing global trade relations. However, the stalemate of the Doha Round in the 2000s also points to the limits to cooperation when intergovernmental negotiations are aggravated by serious conflicts of interests and conflicts over the distribution of gains from (potential) liberalization. Negotiations in the Doha Round between developed economies, led by the EU, the USA and Japan, and developing as well as emerging economies, represented mainly by Brazil, China, India and South Africa, have stalled over divisions on a number of substantive issues, including agricultural trade liberalization, liberalization of trade in services and manufactured products. Yet, the main issue is that developed countries are no longer ready to allow big emerging economies to basically free-ride on trade liberalization, that is, enjoy the benefits of relatively open markets in developed countries without making corresponding concessions. At the same time, emerging economies seek to pursue their interests (reduction of remaining trade barriers in developed states and preservation of their own options for protection of domestic producers) more assertively as their economic and political weight has grown. This basic conflict makes progress on substantive issues and thus further specification of the WTO's policy programme difficult to achieve. Once again this shows that the WTO is ultimately a member-states-driven organization whose capacity for programme development and specification largely depends on member states' willingness and ability to strike mutually beneficial deals (Steinberg 2002). This holds even though the WTO has, to a limited extent, opened up to non-state actors' participation by allowing registered non-governmental organizations (NGOs) to attend, and speak at, intergovernmental negotiations (Steffek & Ehling 2008).

Since the decisions taken in negotiating rounds are often of a highly technical nature, they are normally further specified within the member states' bureaucracies or within the organization's administration. For that purpose a multitude of thematic councils, committees and working parties exist within the framework of the WTO. There are three thematic councils, the Council for Trade in Goods, the Council for Trade in Services and the Council for Trade-Related Aspects of Intellectual Property Rights. These councils consist of all WTO members and are responsible for the more specific workings of the WTO agreements dealing with their respective areas of trade. Each of these councils has subsidiary bodies where trade diplomats from the member states discuss the specification and the 'nitty-gritty' application of the still rather abstract trade rules that are agreed upon in the negotiating rounds. For example the Goods Council has 11 committees dealing with specific subjects (such as agriculture, market access, subsi-

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 the norms and rules of the WTO programme also betrays features of
 the bureaucratic-politics model (Wilkinson 2000: 68–70).

Agreeing on international trade rules is one thing; adhering to them
 is another. States may often be tempted to ignore or contravene agreed
 rules in order to obtain additional advantages for themselves. Thus,
 monitoring, adjudication and (to a far lesser extent) sanctioning are
 important operational activities undertaken by the WTO in order to
 foster sustained compliance and international cooperation. While the
 original GATT limited itself mainly to obliging its member states to
 report regularly upon the implementation of norms and rules, the
 WTO has more far-reaching powers of supervision at its disposal. In
 particular, the large trading states and blocs must submit to regular
 supervision of their trade policies. On these occasions each member
 state, as well as the secretariat of the WTO, has to present a report on
 the implementation of existing norms and rules. Both reports are then
 submitted to a body specifically charged with supervising trade poli-
 cies, the Trade Policy Review Body (TPRB), where the two reports are
 compared (Beise 2001: 214–15; Van den Bossche 2008: 121–4). This
 creates an additional incentive for member states to present their trade
 practices adequately and renders the supervision of practices by states
 within the WTO much more reliable than was the case for GATT
 1947.

Nevertheless, the norms and rules of the WTO still leave scope for
 interpretation, and it cannot be assumed with certainty that the mutu-
 ally expected behaviour of states will occur (Franck 1990). Disputes
 about the interpretation of norms and rules as well as alleged non-
 compliance with agreed rules can seriously hamper cooperation. The
 WTO provides an answer to this cooperation problem with its Dispute
 Settlement Understanding (DSU) (Beise 2001: 215–25; Jackson 2004).
 The DSU, with the so-called panel procedure at its core, represents an
 agreement to adjudicate cases of a dispute through a judicialized,
 court-like dispute-settlement procedure. The procedure can be acti-
 vated by any member state being affected by another state's breach of
 norms and rules laid down in the WTO agreements. The complaining
 state can request scrutiny by a panel consisting of three to five neutral
 trade experts, when the initial obligatory consultation between the
 parties has been unable to resolve the dispute. The panel investigates
 the case, hearing complainants and defendants as well as (sometimes)
 technical experts, examining the norms and rules which apply to the
 case, assessing whether these have been violated and thus establishing
 what speaks in favour of and what against the complaint. The panel
 finally draws up a report in which it describes and assesses the dispute
 from its point of view and gives its verdict. Panel reports become auto-
 matically binding if not rejected by an unanimous vote of the Dispute

Settlement Body (DSB) in which all member states are represented. Yet, before panel reports are accepted by the DSB both defendants and complainants may file an appeal with the Appellate Body (AB). The AB consists of seven independent experts in trade law who are elected for four years. AB reports cannot be blocked by individual member states; as panel reports they become binding unless all members of the DSB reject it. Consequently, disputes about the interpretation of WTO norms and rules are subject to judicialized procedures which produce much more reliable decisions than was the case with the largely diplomatic dispute-settlement procedures of GATT (Wilkinson 2000: 115–36; Zangl 2006, 2008).

Meanwhile, the WTO has made it possible for parties other than member states, such as NGOs, to participate in a dispute-settlement procedure. Although they cannot be a party to a dispute and thus cannot submit a complaint, they can nevertheless forward information to the panel in the form of an 'amicus curiae' brief which provides information and thereby exerts influence on the dispute-settlement outcome. However, the dispute-settlement bodies are free to decide what use they will make of the information obtained (Ohloff 1999).

If a state fails to implement a panel or AB report, it ultimately faces trade sanctions. These sanctions are implemented by the complainant state rather than the WTO itself. However, the state that has suffered through non-observance of the report is not free to enact unilateral sanctions but must wait for the DSB to approve specific sanctions or, formally, the suspension of trade concessions that had previously been granted to the losing defendant. These sanctions are approved unless they are opposed by all DSB member states, making it considerably easier to act in the event of norm and rule infringements in the WTO than used to be the case under GATT 1947. Thus, sanctioning still occurs in a decentralized manner, since the WTO does not collect fines or compensation itself. However, the fact that sanctions must be authorized by the DSB gives the WTO an operational role in sanctioning which aims at preventing escalation to 'trade wars' that might arise from unilateral retaliation. Whether the improved possibility of imposing sanctions has increased the observance of norms and rules remains uncertain. However, there is evidence that the improved scrutiny of trade policies and practices and the dispute-settlement procedure of the WTO have had an impact on member states' dispute settlement behaviour and achieved a reasonably reliable compliance with WTO law (Jackson 2004: 114–19; Zangl 2006, 2008). Thus, on the whole, the effectiveness of the WTO dispute-settlement procedure is accepted, though not without some controversy (Busch & Reinhardt 2002; see below).

Information activities

The WTO provides reports and collects information on international trade. It publishes monthly reports on current trade activities of the organization. The WTO also collects information for the *World Trade Report* which provides information on international trade. However, it cannot claim to make a decisive impact on trade policy. They constitute more information for the public by making it possible to discuss trade policy.

In addition, the WTO reacts early. It regularly publishes reports on international trade relations and international cooperation. Such reports provide the link between trade and development, poverty, and trade and financial liberalization, reducing adjustment costs (see Zangl 1999a, 1999b, 1999c; 2000).

Moreover, the WTO's trade statistics, trade research, and dispute settlement (agreements and dispute settlement) have attracted harsh criticism from NGOs, especially because of its lack of transparency and accountability.

Evaluation of the organization

Since the 1960s the volume of international trade in global production of goods and services in economies, that is, the ratio of international trade to domestic product (GDP), has increased substantially (see Figure 9.1).

There is a growing scientific consensus that the GATT/WTO indeed be credited with a significant impact on international institutions. Membership in the WTO has increased significantly since its founding in 1947 and has been in tandem. Many observers have argued that the WTO (Goldstein et al. 2007: 38; Jackson 1999; Kahler 1999) demonstrate that, over the last decades, the WTO has substantially increased trade and economic growth, and its effects on colonies and new nations are significant.

Information activities of the WTO

The WTO provides reports on internal organizational procedures and collects information on international trade. The *Annual Report* and the monthly reports on current tariff rounds give information about the activities of the organization and its member states. Beyond this the WTO also collects information. Its *International Trade Statistics* and the *World Trade Report* give an annual overview of current trends in international trade. However, these information activities can hardly claim to make a decisive contribution to international trade cooperation. They constitute more of a service rendered to members and the public by making it possible to follow activities in international trade policy.

In addition, the WTO also produces information which enables it to react early. It regularly commissions reports about developments in international trade relations which could in future jeopardize international cooperation. Such commissioned studies concern, for example, the link between trade and protection of the environment, trade and poverty, and trade and financial crises; or highlight the possibility of reducing adjustment costs of developing countries' economies (WTO 1999a, 1999b, 1999c; 2003).

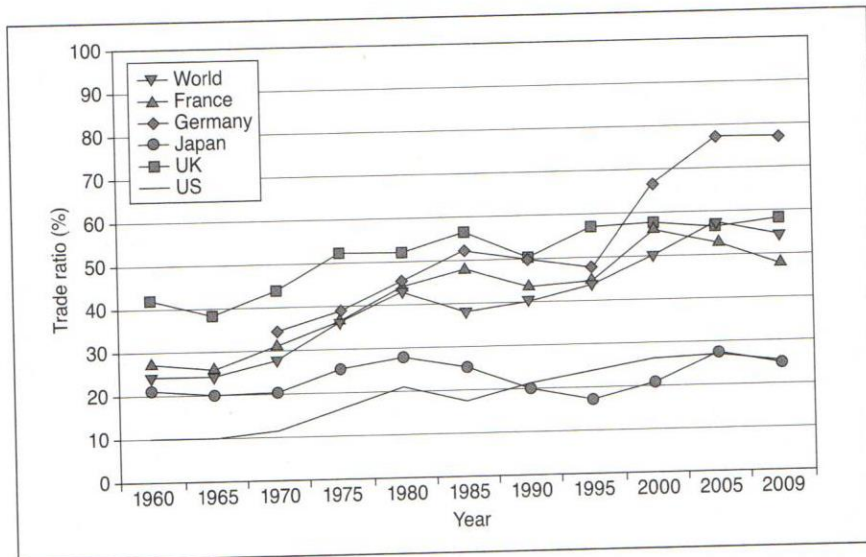
Moreover, the WTO's website (www.wto.org) is a rich source of trade statistics, trade research and analysis as well as legal material (agreements and dispute settlement cases). This is, in part, a reaction to harsh criticism from NGOs which have for long scolded the WTO for its lack of transparency and openness to civil society actors.

Evaluation of the organization's effectiveness

Since the 1960s the volume of world trade has grown faster than the global production of goods and services. The trade ratios of major economies, that is, the ratio of their exports and imports to their gross domestic product (GDP), have increased, for some of them very substantially (see Figure 9.1).

There is a growing scientific consensus that the GATT/WTO can indeed be credited with this rise of world trade. In fact, the GATT/WTO has long been cited as one of the most successful international institutions. Membership in the GATT/WTO has expanded dramatically since its founding, and international trade has grown in tandem. Many observers have assumed that these trends are linked (Goldstein et al. 2007: 38; see Bagwell & Staiger 2002; Irwin 1995; Jackson 1999; Kahler 1995; Ruggie 1993). Goldstein et al. (2007) demonstrate that, over the decades, the GATT/WTO has indeed substantially increased trade among its member states and exerted similar effects on colonies and newly independent states that had not formally

Figure 9.1 Trade ratios of major economies, 1960–2009 (ratio of imports + exports of goods and services to GDP, %)



Source: Based on data from the World Bank (<http://data.worldbank.org>).

acceded but, nonetheless, de facto possessed the rights and obligations of member states. After all, the benefits of the GATT/WTO in terms of increased trade have not been limited to developed economies, but have extended also to developing countries (Goldstein et al. 2007: 63–4). These positive results refute Rose's (2004) earlier, much-debated analysis which found no evidence that the GATT/WTO increased trade among members, after controlling for national income, geography, and other factors that affect the flow of goods between countries. A positive assessment of the GATT/WTO's effectiveness in enhancing trade is supported by a number of further studies. For example, Mansfield and Reinhardt (2008) find that the GATT/WTO has served to reduce volatility in trade policy and trade flows. In so doing, these institutions have increased long-term global trade levels (see also Ingram et al. 2005).

Empirical evidence also suggests that flexibility clauses in the WTO's policy programme (such as those allowing a member state to impose anti-dumping duties on low-priced imports that injure domestic producers) have done more good than harm. Opportunities to temporarily suspend or circumvent trade-liberalizing provisions increase states' readiness to both conclude trade agreements in the framework of the WTO and make deeper concessions when doing so. States able to take

advantage of these flexibility provisions are more likely to agree to more ambitious tariff reductions and lower applied tariffs as a result (see Rosendorf & Milner 2001: 83).

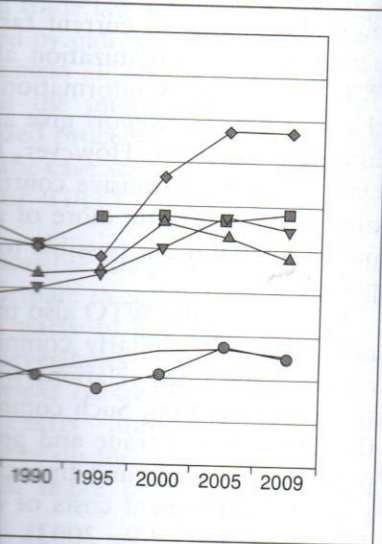
Apart from promoting progress, the WTO has furthermore helped to break the trade liberalization spiral, despite numerous trade disputes with the EU. While the WTO has been successful in disciplining states like the USA and China or trade protectionists breaching rules, existing regulations have been implemented satisfactorily (see Jackson 1999).

There are, however, points of contention that undermine its promise its effectiveness, in particular the slow development of its policy programme and the lack of new norms and rules in the wake of the WTO. It is stuck in deadlock due to national interests over the distribution of gains from trade. This is evidenced by the negotiations in the Doha Development Round progress since their inception. The negotiations on market access are still a main point of contention. There is still a shortage of multilateral trade rules. Industrialized states frequently protect or subsidizing sectors of their economies. Developing countries have a comparative advantage in agriculture and textile sectors. Moreover, the assertiveness of states such as the USA and the EU, as additional trading powers, the EU, has slowed progress on further trade liberalization.

However, these deficits in progress are contrasted with a high degree of trade liberalization. Despite trade disputes, that is, on the one hand, the behaviour. Not only has there been a high degree of trade liberalization that were brought before the WTO, but also the judicialization of the dispute settlement process. The establishment of the WTO has increased states' readiness to settle trade disputes and procedures. States demonstrate a high degree of judicialized WTO dispute-settlement procedures: states are more likely to follow, rather than avoid, dispute-settlement procedures (see Petersmann 1997). Judicialization has also improved compliance with the WTO's *decisions* of the DSB (Iida 2004). The mounting empirical evidence, c

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advantage of these flexibility provisions are significantly more likely to agree to more ambitious tariff-reduction commitments and to implement lower applied tariffs as well (Kucik & Reinhardt 2008; see also Rosendorf & Milner 2001: 832).

Apart from promoting progressive trade liberalization, GATT and the WTO have furthermore contributed to avoiding a protectionist spiral, despite numerous trade conflicts between, for example, the USA and the EU. While the WTO cannot prevent powerful trading states like the USA and China or trading blocs like the EU from occasionally breaching rules, existing regulations have, by and large, been observed satisfactorily (see Jackson 1999).

There are, however, points of friction within the WTO which compromise its effectiveness, in particular with a view to the further development of its policy programme. Intergovernmental negotiations over new norms and rules in the various negotiating rounds can easily get stuck in deadlock due to national protectionist pressures or conflicts over the distribution of gains from international trade. This is evidenced by the negotiations in the Doha Round, which have made little progress since their inception in November 2001. Restrictions to market access are still a main impediment to trade in agriculture, and there is still a shortage of multilateral rules on trade in services. The industrialized states frequently insist on trade liberalization while protecting or subsidizing sectors of their own economies in which developing countries have a comparative advantage, as in the agricultural and textile sectors. Moreover, the economic rise and growing political assertiveness of states such as Brazil, China or India (besides the traditional trading powers, the EU, USA and Japan) has hardly facilitated progress on further trade liberalization.

However, these deficits in policy programme development can be contrasted with a high degree of effectiveness in the adjudication of trade disputes, that is, on the outcome level of influencing states' behaviour. Not only has there been a remarkable increase in disputes that were brought before the DSB. There is empirical evidence that the judicialization of the dispute settlement procedures that occurred with the establishment of the WTO has contributed to further enhancing states' readiness to settle trade disputes according to multilateral rules and procedures. States demonstrably act more in accordance with the judicialized WTO dispute-settlement *procedures* than with the previous diplomatic GATT procedures: in the case of trade disputes states tend to follow, rather than avoid, manipulate or openly disregard WTO dispute-settlement procedures (Zangl 2008; see also Jackson 1999; Petersmann 1997). Judicialization of the dispute-settlement system has also improved compliance with the substantive outcomes, that is, the *decisions* of the DSB (Iida 2004; Leitner & Lester 2005). In the face of mounting empirical evidence, competing claims that the judicialization

of WTO procedures did not have any significant effect on states' behaviour (Busch & Reinhardt 2003a; Goldsmith & Posner 2005: 135–62; Posner & Yoo 2005) seem questionable. However, critics have a point when arguing that WTO dispute-settlement proceedings which work for powerful, developed countries are not equally helpful for the less powerful, developing countries which sometimes cannot even afford to invoke them (Busch and Reinhardt 2003b; Guzman & Simmons 2005). Notwithstanding this limitation and the fact that in some cases the USA and especially the EU did not comply with the decisions of WTO's DSB, one can claim that in the WTO context an international rule of law is gradually emerging, at least among equally powerful actors such as the USA and the EU (Zangl 2008: 848).

In sum, the WTO has evolved into a reasonably well-functioning international organization as far as the implementation of existing norms and rules as well as the settlement of trade disputes are concerned; however, in recent years there has been less progress on the policy-programmatic side.

European trade relations: the EU

Alongside cooperation at the global level, further institutionalized cooperation in trade policy has emerged at the regional level. The states involved in regional trade regimes such as the EU, the North American Free Trade Association (NAFTA) or the Association of Southeast Asian Nations (ASEAN), for instance, are, on the whole, more homogenous and should therefore have a broader basis for consensus. Thus, there is at least the potential for deeper integration of trade relations in a regional organization. This kind of regional integration of trade policies is by far most advanced in the EU. Whereas the WTO is limited to 'merely' establishing free trade among its members, the EU aimed from their very beginning at establishing a common market going far beyond a free-trade area.

Policy programme of the EU

The policy programme of the EU on issues pertaining to trade among its members is much more ambitious than that of the WTO. From the Treaty of Rome setting up the European Economic Community (EEC) in 1957 to the Treaty on European Union (TEU) in 1992 and beyond, the aim has been to establish a common market (Moravcsik 1998: 86–158). This common market was to be established by 1969 through the elimination of barriers to free trade in goods, services, capital and labour. Initially, a detailed programme was developed only for trade in goods. This programme foresaw the elimination of 'customs duties and

quantitative restrictions on the member states to unite them with Article 3, paragraph 1). However, Member states decided to establish a common market policy (Article 3, paragraph 2) (Zangl 2006: 43–7).

By 1968 internal customs duties and a common external tariff set up but a true internal market required the harmonization of nearly 400 regulations, such as different product standards (Zangl 2006: 159–237). In addition, differences in legal systems of the Member States of the Community. As for free trade, much progress had been made. The Commission's line for establishing an internal market was to take up the challenge with a programme of action. After nearly two years of intergovernmental negotiations, states proceeded to a thorough revision of the Treaty of Rome (Moravcsik 1991, 1998: 159–237). The Act of 1986 (coming into force in 1993) set a new date for completion of the internal market decision-making framework, since a single market (1992), Amsterdam (1997), Nice (2001) and the Treaty of Lisbon (2007) in the Council of the EU the Commission's line in favour of majority decisions is essential for the establishment of an internal market or mutual recognition of laws. Moreover, the European Parliament's role in the process has gradually been strengthened (Zangl 2005).

Operations of the EU

The mere agreement on the single market among states through intergovernmental negotiations did not guarantee its coming into being. Since the EU was not without which obstacles were to be removed, the EU were required further to strengthen the single market. Both the EU and the Member States followed a two-step process. Both the EU and the Member States followed a bureaucratic-politics model, taking into account the (supranational, intergovernmental) nature of the process and the weighting of the levels.

To implement the single-market programme, the EU issued detailed regulations or directives. Most of these are taken by a qualified majority, a

any significant effect on states' (2003a; Goldsmith & Posner 2005: 100). This claim is questionable. However, critics of WTO dispute-settlement proceedings and countries are not equally helpful in countries which sometimes cannot overcome this limitation and the fact that in the EU did not comply with the claim that in the WTO context an emerging, at least among equally developed countries, the EU (Zangl 2008: 848).

to a reasonably well-functioning system of the implementation of existing rules and the settlement of trade disputes are concerned, there has been less progress on the

EU

level, further institutionalized and merged at the regional level. The examples such as the EU, the North American Free Trade Area (NAFTA) or the Association of South East Asian Nations (ASEAN), for instance, are, on the whole, more advanced than the EU. They have a broader basis for continental integration and are essential for deeper integration of the region. This kind of regional integration is more advanced in the EU. Whereas in other regions free trade among its members is beginning at establishing a free-trade area.

issues pertaining to trade among its members that of the WTO. From the beginning of the European Economic Community (EEC) in 1957 to the Treaty of Maastricht (TEU) in 1992 and beyond, the EU has been a single market (Moravcsik 1998: 159). It was established by 1969 through the elimination of customs duties and

quantitative restrictions on the import and export of goods' between member states to unite them within a free-trade area (Treaty of Rome, Article 3, paragraph 1). However, integration should not stop there. Member states decided to establish a joint external tariff and trade policy (Article 3, paragraph 2), thus forming a customs union (Nugent 2006: 43–7).

By 1968 internal customs duties had been abolished and an external tariff set up but a true internal market did not exist since, despite the harmonization of nearly 400 regulations by 1982, non-tariff obstacles, such as different product standards, still persisted (Moravcsik 1998: 159–237). In addition, different tax rates distorted competition within the Community. As for free trade in services, capital and labour, not much progress had been made. Only in 1986, 16 years after the deadline for establishing an internal market had passed, did the Community take up the challenge with a programme for a 'single market by 1992'. After nearly two years of intergovernmental negotiations the member states proceeded to a thorough renewal and extension of the Treaty of Rome (Moravcsik 1991, 1998: 314–78). Of fundamental importance for the single-market programme was the fact that the Single European Act of 1986 (coming into force in 1987) set 31 December 1992 as the new date for completion of the single market and created a new decision-making framework, since amended by the Treaties of Maastricht (1992), Amsterdam (1997), Nice (2001) and Lisbon (2007). For decisions in the Council of the EU the unanimity principle was abandoned in favour of majority decisions in order to facilitate those elements essential for the establishment of a single market, such as harmonization or mutual recognition of legal, technical and fiscal standards. Moreover, the European Parliament's role in the decision-making process has gradually been strengthened (see Chapter 4; B. Rittberger 2005).

Operations of the EU

The mere agreement on the single-market programme by member states through intergovernmental negotiations was not enough to guarantee its coming into being. Since this ambitious programme only set out which obstacles were to be removed but not how, operations by the EU were required further to specify its norms and rules. The EU followed a two-step process. Both processes largely correspond to the bureaucratic-politics model, taking place on three negotiating levels (supranational, intergovernmental and national), but with different weighting of the levels.

To implement the single-market programme the Council adopted detailed regulations or directives. Most of the decisions by the Council are taken by a qualified majority, along with the European Parliament,

in an institutionalized decision-making process (see Chapter 4). The Commission has to monitor and ensure equal application of decisions in all member states. For that purpose, the Commission issues on average over 4000 so-called implementation instructions in a year. To fulfil this task the Commission has to rely on cooperation from member states through various committees, a procedure generally referred to as 'comitology' (Wallace 2010: 75; Wessels 1996). Instructions are worked out by the Commission in agreement with a multitude of committees made up of top civil servants and experts from the relevant ministries of member states (Joerges & Falke 2000; Nugent 2006: ch. 9). The Commission must consult the competent committees. If the Commission and the committees fail to reach an agreement the committees can ask the Council to intervene, although this is rarely the case.

The committees allow member states to keep an eye on the Commission. However, the latter can call on civil servants and specialist members of these committees to use their expertise in the preparation and implementation of decisions (Joerges & Neyer 1997a, 1997b). This is essential, given the relatively small administrative apparatus of the Commission, some 25,700 staff, almost half of whom are translators or engaged in secretarial work (European Parliament 2011: 111). Since the national civil servants who generally sit on these committees are the same people who are entrusted with implementation of the EU's regulations and directives, their implementation is almost guaranteed. Any problems with implementation would have been raised in the relevant committee.

The EU is an unusual international organization in that it grants supranational organs exceptionally broad operational competencies. While much implementation is still left to the member states, since 1970, for example, the EU is solely responsible for external trade relations. This transfer of competencies had become necessary after the setting-up of the customs union. In trade negotiations within the WTO, for instance, EU member states are represented by the Commission. However, the Commission does not act fully autonomously. It is limited in its competencies by a negotiating mandate from the Council. A special committee, the so-called Article 133 Committee (named after Article 133 of the Treaty of Amsterdam, now Article 207 of the Treaty of Lisbon), which consists of member states' civil servants, ensures that the Commission stays within its mandate. In addition, negotiated outcomes achieved under GATT or in the WTO had or have to be approved by the Council by a qualified majority. Thus the Commission is monitored in international trade relations by the member states, but nonetheless it is in charge of international trade policy (Vanhoonaeker 2005:71-4; Woolcock 2010).

While the EU is authorized to implement its norms and rules directly

in only a few areas, the Commission. It can request reports and directives from member states and carry out on-site inspections in member states. However, its capabilities are limited to ensure adherence to norms and rules through inspections. To ensure reliability, other means of supervision, such as audits by actors such as enterprises, public authorities, or suppliers, are used. The Commission is also supplying information about the implementation of European law.

If there is doubt about the implementation of a norm in a member state the Commission can inform the state by letting it know in writing that it is not obeying the norms and rules. In such a case, the Commission issues a 'letter of formal notice' in which it states that there is a breach of the law. This is followed by a 'reasoned opinion'. However, if the member state does not comply with the norms and rules as required, the Commission can refer the case to the Court of Justice, outlining why it considers that there is a breach of the relevant treaty. If there is still doubt about the implementation, the Commission can take the member state to court. However, this only happens in exceptional cases, such as issues binding judgements with respect to the implementation of practically without exception. (Mendrinou 1996; Tallberg 2000)

Not only the Commission but also the ECJ to ascertain breaches of the law. (Stone Sweet & Brunet 2006: 16-27; Stone Sweet & Brunet 2006: 16-27) through the courts in their own right. The ECJ for authoritative guidance. The decision is passed back to the member states, under the guidance of the Commission. The implementation of EU law is not left to the member states.

The far-reaching monitoring and enforcement of EU law are, however, complemented by the national legal systems. Individual member states can bring actions against other member states. Even when a member state is not in breach of the other member states may not be in breach of European law. The European Commission could also bring actions against a member state in breach of European law. (Treaty of Maastricht (Article 170))

in only a few areas, the Commission has the competency in supervision. It can request reports about implementation of the EU's regulations and directives from member states and is also entitled to carry out on-site inspections in member states with a small team of inspectors. However, its capabilities are far too small to supervise reliably adherence to norms and rules, and it has to limit itself to ad hoc inspections. To ensure reliability the Commission has to make use of other means of supervision, especially information provided by private actors such as enterprises. Private actors can therefore be important in supplying information about a member state's non-compliance with European law.

If there is doubt about the proper implementation of European law in a member state the Commission will contact the relevant member state by letting it know informally that it may have contravened existing norms and rules. In this way the member state may agree to obey the norms voluntarily or else the Commission will send a 'letter of formal notice' in which it expresses the view that the state may be in breach of the law. This is usually sufficient to rectify the situation. However, if the member state concerned refuses to observe the norms and rules as required, the Commission will issue a 'reasoned opinion' outlining why it considers the member state to be in violation of the relevant treaty. If there is still no satisfactory response the Commission can take the member state to the European Court of Justice (ECJ). However, this only happens in a very small fraction of cases. The ECJ issues binding judgements which are accepted by the member states practically without exception (Hix 2005; Jönsson & Tallberg 1998; Mendrinou 1996; Tallberg 2002b; Weidenfeld 2010).

Not only the Commission but also citizens and corporations can ask the ECJ to ascertain breaches of EU norms and rules (Alter 2001: 16–27; Stone Sweet & Brunell 1998). However, they must first go through the courts in their own member states, which then must ask the ECJ for authoritative guidance in the form of a preliminary ruling. The decision is passed back to the member state's court, which must base its judgement on the preliminary finding. In this way the courts of member states, under the guidance of the ECJ, ensure that the interpretation of EU law is not left to individual member states' governments.

The far-reaching monitoring and adjudication procedures within the EU are, however, complemented by a rather limited sanctions mechanism. Individual member states are formally forbidden to impose sanctions against other member states thought to be in breach of EU law. Even when a member state refuses to abide by a judgment of the ECJ the other member states may not respond with sanctions. Not even the European Commission could impose sanctions against a member state in breach of European law until given this power under the 1992 Treaty of Maastricht (Article 228). If a member state does not rectify

its breach the Commission can request the ECJ to impose a fine (Oppermann et al. 2009: 259–61). Stronger sanctions seem unnecessary, given the very high observance of ECJ judgements, whose authority seems sufficient to make member states comply (Tallberg 2002b; Wallace 2010: 84–6).

While the EU disposes of weak possibilities for imposing sanctions on member states, it has comparatively strong possibilities of using sanctions to force citizens or corporations to comply with existing EU law. This is particularly the case in the area of competition, where the Commission is partly entitled to impose sanctions, for instance, substantial fines, on enterprises in breach of European competition rules (McGowan 2000: 118–38). The company in question may ask the ECJ to examine the legality of the sanctions, but otherwise it is obliged to pay the fine.

Information activities of the EU

The EU is both a collector and generator of information and also acts as a market for the exchange of information. It is an information point wherever it reports upon its own activities, the activities of its member states or the development of the EU. It does so through various publications as well as on the homepage of the EU (<http://europa.eu>) or through the public statements of its representatives. Debates in the European Parliament (despite their being rarely broadcast by European news media) provide information for the European public, and through interviews with journalists, press conferences or press releases the organs of the EU can make information available about political events in Europe.

Alongside these measures aiming at more transparency in and publicity of EU policy-making, providing reliable information is an important input in overcoming the obstacles to cooperation between member states. Indeed, the Commission is constantly commissioning scientific studies or expert reports to give more weight to its initiatives. It helps to define the information basis on which states conduct their negotiations, thus exerting a sustained influence on the negotiating outcome. Arguably, the importance of this factor for cooperation and governance within the EU became most clear through the effect of the European Commission's White Paper *Completing the Internal Market* (Sandholtz & Zysman 1989: 114–16; Young 2010b: 113–18). Generally speaking, Commission White Papers contain suggestions for joint action in a certain issue area. The Internal Market White Paper, calling for urgent measures which were deemed necessary for the realization of the internal market, was essential for the EU's 'internal market programme 92'. The Delors Report of 1989 had a similar effect. Prepared under the auspices of the then President of the

European Commission Jacques Delors, the report was a plan for bringing about economic convergence on a basis for the Maastricht Treaty (1992: 86–105).

With such reports the EU has provided a base for intergovernmental negotiations and a basis of success. The Commission has acted through its information activities to ensure speedy and successful negotiations and a consensus on welfare goals. At the national level, the value of information is high, informed positions and, potentially, additional evidence, is difficult to come by. The exchange of information at the international level, other international organizations, and the market. It provides an opportunity for information between politicians and representatives inform one another. Assessments and the aims of the Commission and trade union associations are made available to the EU in order to ensure a regular exchange of information and a common interest and contribution to the expectations of collective policy.

Evaluation of the organization

On a very general level, the EU was created for: securing economic growth, the EU's oldest, and most successful, achievement (Meunier 2003: 69; Moravcsik 2002: 10). The EU's GDP (plus imports) as a share of GDP per cent in Germany and 58 per cent in the USA and in Japan, has increased considerably since the openness among EU member states between the completion of the Single Market and the Financial and Economic Crisis (2008–9). The ratio of exports and imports to GDP, has increased considerably since the large gap between the intra-EU trade and the trade among EU member states, meaning that trade among EU member states is more than trade of EU members with other countries. This is partly due to geographic proximity and partly due to the Single Market. The Single Market has also contributed to the growth of EU-trade (see Figure 9.2).

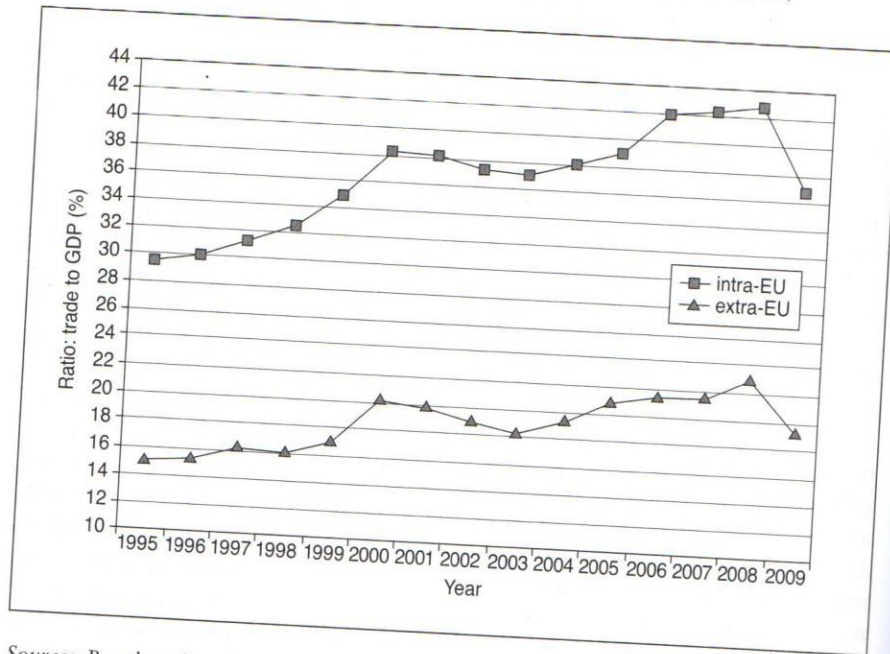
European Commission Jacques Delors, the report foresaw a three-stage plan for bringing about economic and monetary union and represented a basis for the Maastricht Treaty negotiations of 1992 (Wolf 1999: 86–105).

With such reports the EU helps to generate a consistent information base for intergovernmental negotiations, thus improving their chances of success. The Commission contributes to reducing transaction costs through its information activities and increases the prospects for speedy and successful negotiations. Given the difficulties of achieving consensus on welfare goals and priorities at the intergovernmental level, the value of information activities which help states to take informed positions and, potentially, revise them in the light of new or additional evidence, is difficult to overestimate. The same holds for the exchange of information at the intergovernmental level. Like every other international organization the EU functions as an information market. It provides an opportunity for the regular exchange of information between politicians and top civil servants. Government representatives inform one another about opinions, points of views, assessments and the aims of their own policies. In addition, employers' and trade union associations and other NGOs try to feed their information to the EU in order to promote their preferred policies. This regular exchange of information serves to identify or highlight areas of common interest and contributes to generating mutually dependable expectations of collective policy-making in these areas.

Evaluation of the organization's effectiveness

On a very general level, the EU has reached one of the main goals it was created for: securing economic prosperity for its people. Trade is the EU's oldest, and most successfully integrated, common policy (Meunier 2003: 69; Moravcsik 2002: 606–8). In 2009, trade (exports plus imports) as a share of GDP amounted to 48 per cent in France, 77 per cent in Germany and 58 per cent in the UK, compared to 25 per cent in the USA and in Japan, indicating a high degree of economic openness among EU member states (see Figure 9.1). What is more, between the completion of the Single Market (1993) and the Global Financial and Economic Crisis (2007–10) the intra-EU trade ratio, that is, the ratio of exports and imports among EU members to EU-wide GDP, has increased considerably (see Figure 9.2). Moreover, there is a large gap between the intra-EU and the extra-EU trade ratios – meaning that trade among EU members is much more pronounced than trade of EU members with non-EU-members. While this may in part be due to geographic proximity, it is very likely that the Single Market has also contributed to this gap between intra-EU and external EU-trade (see Figure 9.2).

Figure 9.2 Intra-EU and extra-EU trade in comparison, 1995–2009
(ratios of exports + imports of goods to EU GDP, %)



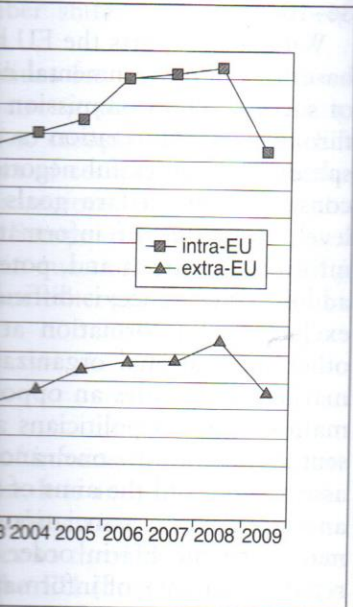
Sources: Based on data from Eurostat (2010); Ilzkovitz et al. (2007: 30).

Scharpf (1999) has shown that the European Commission and the ECJ have helped freeing trade and capital movements ('negative integration' in Europe. Negative integration, that is, activities that lead to the removal of barriers to trade or of obstacles to undistorted competition in Europe, has been developed by the Commission and the ECJ into a powerful tool aimed at removing national measures that distort the free movement of goods, services, capital and labour (Kohler-Koch & Rittberger 2006: 40–1; see Allen et al. 1998; Stone Sweet 2004). This is corroborated by econometric findings which suggest that overall the Single Market is a powerful instrument to promote economic integration within the EU. It has also been the source of large macro-economic benefits in terms of both economic growth and job creation, even though cross-border barriers remain, due to slow and sometimes incomplete implementation of EU directives and the persistence of (non-tariff) barriers to cross-border trade and investment, particularly in the realm of services (Ilzkovitz et al. 2007). In fact, its model of economic integration is now being explored by countries around the world (Meunier & McNamara 2007; see Anderson & Reicher 1995; Moravcsik 2007).

In contrast to the success of the EU, the EU has been far less successful in the adoption of common economic policy, social policy (Scharpf 1999). This has not succeeded in resolving or managing economic policy, social policy (see Eichener 1997; Grabel 2006: 41; Scharpf 1999: 41). The potential for the EU's super-national positive integration is much greater, but it explicitly requires approval by the European Parliament, and divergent national and regional economic policies, depending on the scope and nature of the economic policies, require both organs have thus limited positive integration.

The transfer of sovereignty to a single market and policy-making bodies has also led to a deficit. The move from unanimity to majority voting in the Council has far-reaching consequences. Their parliaments cannot hold the member states' parliaments responsible for which they did not have the authority. The Treaty of Lisbon which are nevertheless binding on all member states' parliaments has decisions in a wide area of public policy effectively hold their governments responsible. The Treaty of Lisbon which national parliaments can challenge proposals for EU action which ultimately block such initiatives. However, national parliaments' ability is somewhat mitigated, but the European Parliament has continually been able to do so (Rittberger 2005). The Lisbon Treaty (renamed 'ordinary legislative procedure' (including trade and agricultural proposals) more Council decisions follow the same procedure. The European Parliament does not obtain in full those competencies which are normally reserved for national parliaments (see Rittberger 2005). To this we must add the challenge which raises questions of both efficiency and legitimacy.

in comparison, 1995–2009
to EU GDP, (%)



et al. (2007: 30).

European Commission and the
movements ('negative inte-
that is, activities that lead to
to undistorted competi-
Commission and the ECJ
national measures that distort
tal and labour (Kohler-Koch
1998; Stone Sweet 2004).
findings which suggest that
instrument to promote eco-
also been the source of large
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tz et al. 2007). In fact, its
being explored by countries
ra 2007; see Anderson &

In contrast to the success in bringing about negative integration, the EU has been far less successful in terms of 'positive integration', that is, the adoption of common policies especially in social policy and taxation (Scharpf 1999). This is not to say that instances of regulation that succeed in resolving or mitigating European problems in the areas of economic policy, social policy and regional development do not exist (see Eichener 1997; Grande & Jachtenfuchs 2000). However, the potential for the EU's supranational actors to bring about measures of positive integration is much more limited because such measures generally require explicit approval by the Council of Ministers and the European Parliament, and thus a consensus among a wide range of divergent national and group interests (Kohler-Koch & Rittberger 2006: 41; Scharpf 1999: 71). Decision-making procedures that, depending on the scope and depth of Europeanization of (re-distributive) economic policies, require unanimity or at least large majorities in both organs have thus limited the EU's effectiveness in the realm of positive integration.

The transfer of sovereignty to EU institutions has not only produced a single market and policy integration in trade and other economic policies but has also led to the current complaint of a democratic deficit. The move from unanimity to qualified majority decisions in the Council has far-reaching consequences for member states' democracies. Their parliaments cannot hold their governments accountable for decisions for which they did not vote in the EU Council of Ministers but which are nevertheless binding on all member states. This means that member states' parliaments have been deprived of the authority to take decisions in a wide area of public policy as well as of the possibility to effectively hold their governments to account. To accommodate such concerns, the Treaty of Lisbon (2007) has introduced a procedure by which national parliaments can express their objection to Commission proposals for EU action which, in their view, violate the principle of subsidiarity. However, national parliaments can only delay rather than ultimately block such initiatives. The problem of democratic accountability is somewhat mitigated, however, by the fact that the European Parliament has continually been given greater co-decision power (Rittberger 2005). The Lisbon Treaty extended the 'co-decision-procedure' (renamed 'ordinary legislative procedure') to several new fields, including trade and agricultural policies. Nonetheless, as more and more Council decisions follow the qualified majority rule the EU will continue to suffer from a democratic deficit as long as the European Parliament does not obtain in full (and in all areas of binding decision-making) those competencies which until now have usually been vested in member states' parliaments (see Chapters 4 and 5).

To this we must add the challenges related to the EU enlargement, which raises questions of both efficiency and democratic legitimacy of

decision-making. The more member states there are, the more difficult it becomes to ensure reasonably smooth and at the same time democratic decision-making. With 27 members, unanimity turns out to be ever more difficult to achieve for the decisions required to further nurture integration in the trade policy of the Union. If the EU wants to function effectively, it will need to rely to an even greater extent on qualified majority decisions in the Council. This is reflected in the Treaty of Lisbon's provisions on the scope of qualified majority voting and the calculation of the necessary double majority (from 2014, 55 per cent of the member states representing at least 65 per cent of the Union's population; see Chapters 4 and 6). Despite these reforms in decision-making and the strengthened (but still limited) role for the European Parliament, the enlarged EU continues to face the challenge of finding a way of increasingly consolidating the integration process which allows effective decision-making without simultaneously weakening its feedback to the democratic representative bodies.

Global financial relations: the IMF

The welfare dilemma, which can produce collectively undesirable results in international trade, can also lead states into traps in international monetary relations. The limitation of convertibility or the devaluation of currencies are instruments of financial politics similar in their effects to the setting of tariffs. If several states make use of these options for their own short-term gain, international exchange relations suffer lasting damage to the detriment of all in the long term. Lax banking regulations strengthen the competitiveness of the commercial banks in the state concerned vis-à-vis those in states with stricter regulations. However, it increases the risk, at everybody's expense, that through the simultaneous collapse of several commercial banks either the international financial system is brought down or expensive salvage operations are needed, to be financed by many states and their taxpayers. In the long term all states are worse off, both collectively and individually, if they do not cooperate to eliminate such financial practices. The IMF serves as an example of how international organizations can contribute to international cooperation in monetary relations.

Policy programme of the IMF

After the Second World War, the IMF's policy programme (see Chapter 3) created a limited liberal financial order corresponding to the world trade order of the time. The 1944 intergovernmental negotiating process at Bretton Woods, dominated by the USA and the UK, established norms and rules for the IMF which were intended to

strengthen the envisaged liberal international economic steering (GATT (1947) while similar national economic steering 57-68; Helleiner 1994: 25-7) establish the free convertibility aimed at promoting liberal trade one currency for another is good international trade. (currency) can there be the same

Furthermore, the original intention was to fix the exchange rates of member states to fixed, but adjustable rates (Kahler 1995: 48-64; attempted to combine the advantages of fixed rates with those of flexible rates the disadvantages of either. In exchange rates, supply and demand determine the value of a currency. However, while with flexible exchange rates, not influenced by states, allow a case of fixed exchange rates and demand on international rate remains stable at the agreed business can take place without currencies in which the value is fixed. However, in order to keep the value of currencies must orientate their entire economic maintenance of international equilibrium exchange rates, they largely lose competitiveness in areas which affect competitive policies.

Within the IMF's system of fixed exchange rates, currencies were linked to the US dollar. The dollar was itself protected by a gold standard. However, the value of the dollar could deviate from the rate fixed in relation to gold by up to 2 per cent up or down, which means that there could be deviations of up to 2 per cent. To adapt the exchange rate of a national currency to the agreed fixed exchange rates, balance-of-payments imbalances, for instance, social policy measures, take, for instance, social policy measures steering that otherwise would have led to imbalances (Helleiner 1994: 25-50; To enhance the domestic leeway policy measures independently of p

strengthen the envisaged liberal trade relations eventually agreed under GATT (1947) while simultaneously leaving states some leeway for national economic steering and welfare-state policies (Gilpin 2000: 57–68; Helleiner 1994: 25–72). The norms and rules obliging states to establish the free convertibility of their currencies were particularly aimed at promoting liberal trade relations. Only if the free exchange of one currency for another is guaranteed (in the absence of a world currency) can there be the smooth payment transactions necessary for international trade.

Furthermore, the original norms and rules of the IMF committed the member states to fixed, but adaptable, exchange rates for their currencies (Kahler 1995: 48–64; Spero & Hart 2003). This solution attempted to combine the advantages of a system of fixed exchange rates with those of flexible rates without burdening member states with the disadvantages of either. In the case of both fixed and flexible exchange rates, supply and demand on international financial markets determine the value of a currency because of its free convertibility. However, while with flexible exchange rates demand and supply are not influenced by states, allowing for relatively free movement, in the case of fixed exchange rates national central banks influence supply and demand on international financial markets so that the exchange rate remains stable at the agreed level. This means that international business can take place without the constant fear of fluctuations in the currencies in which the value of services or goods is calculated. However, in order to keep the value of their currencies constant states must orientate their entire economic and financial policy towards maintenance of international equilibrium. Unlike in the case of flexible exchange rates, they largely lose the scope for using domestic measures in areas which affect competitiveness, like social and environmental policies.

Within the IMF's system of fixed but adaptable exchange rates all currencies were linked to the US dollar acting as a currency anchor. The dollar was itself protected through its gold parity of \$35 to one ounce of gold. However, the various currencies were allowed to deviate from the rate fixed in relation to the US dollar by up to 1 per cent up or down, which means that in relation to other currencies there could be deviations of up to 2 per cent. Furthermore, it was possible to adapt the exchange rate of a national currency in cases of severe balance-of-payments imbalances, which continuously threatened the agreed fixed exchange rates. This possibility gave states the leeway to take, for instance, social policy measures or measures of economic steering that otherwise would have accentuated balance-of-payments imbalances (Helleiner 1994: 25–50; Spero & Hart 2003).

To enhance the domestic leeway for economic steering and social policy measures independently of potential exchange-rate adaptations,

each member state transferred currency reserves, called quotas, to the IMF which were then available as temporary foreign currency loans to be drawn on by individual states in times of balance-of-payments deficits. This was to enable states to finance interventions on financial markets in favour of their currencies. The amount of the loan, called drawing rights, was calculated in relation to the amount of currency reserves which the state concerned had put at the IMF's disposal. Thus states with high quotas disposed of a higher amount of credit than states with lower quotas. In case of balance-of-payments problems states were allowed to borrow up to 100 per cent of their quotas without having to fulfil certain conditions. If they wanted to borrow up to 125 per cent of their quotas certain conditions were set. This loan facility created a currency buffer which enabled states to maintain liberal trade relations despite a system of fixed exchange rates, even when they got into balance-of-payments difficulties (Gilpin 2000: 59–62; Helleiner 1994: 25–50).

In the spirit of a limited liberal financial order the norms and rules of the IMF did not oblige member states to renounce controls over capital movements. States were able to use controls over capital movements to finance domestic measures through their taxation system or debt policy without fear of a flight of capital (Gilpin 2000: 139–40). In addition, it was hoped that a restricted movement of capital would strengthen the system of fixed exchange rates because it limited the possibility of speculative foreign exchange movements and the resulting attacks on one or the other currency (Helleiner 1994: 25–72; Pauly 1997: 79–97).

The Bretton Woods system embedded in the IMF became operative in the 1950s and 1960s but was only effective as long as the movement of capital could really be limited. Yet this became less and less feasible with the creation of the eurodollar markets that arose in the late 1950s and early 1960s. UK and US banks in London attempted to circumvent existing controls on the movement of capital for their international financial business. While British banks began to conduct their international financial affairs in US dollars, American banks transferred their international financial affairs to London. Since British controls on the movement of capital only applied to deals in pounds sterling and American controls applied only to deals in the USA, this created a financial centre in London allowing for a largely unregulated movement of capital (Eichengreen 1996: 93–152; Helleiner 1994: 81–122).

The rapidly growing eurodollar market put pressure on the Bretton Woods system because the freer movement of capital enabled speculative attacks on individual currencies, making it more and more difficult to maintain the fixed exchange-rate parities. The IMF's loans were insufficient to counter these attacks effectively, especially as specula-

tion was directed at the dollar. The dollar could do little about it. It was the dollar which began to show up in the balance of payments which would have suffered lasting damage. The dollar would have lost the liquidity the dollar had. The policy of balance-of-payments parity in the long term since the Bretton Woods system created Special Drawing Rights of payment which were to be used for international trade. But since this dollar was the USA finally gave up gold standard parity. Fixed rates became untenable in the Smithsonian Agreement. Fixed rates and revised fluctuation rates were finally set free in 1971 (Helleiner 2003).

The passage from fixed to flexible exchange rates altered the function of the IMF. The IMF had become superfluous. It has been operating as a liberal financial and currency movements. The IMF, with its help, ensuring, through its assistance, financial crises – like those in Mexico like the Mexican one of 1982 – spread and possibly threaten the Bretton Woods system (Helleiner 1994: 169–97). The US financial (mortgage) crisis led to a severe global financial and economic crisis (World War).

In the case of debt and/or financial crises, the IMF helps the states concerned, which may be required to make certain structural adaptations. The IMF will be able to service its debt with conditions: the IMF requires domestic and foreign economic growth to service the loan. To be able to respond to the role as lender of last resort, the IMF has intervened several times, with the largest intervention in late 2010 when the Executive Board approved about US\$750 billion.

tion was directed at the dollar as well. The USA faced a dilemma and could do little about it. If it reduced its balance-of-payments deficits, which began to show up in the 1950s, international trade relations would have suffered lasting damage since international trade would have lost the liquidity the deficits provided. But by continuing their policy of balance-of-payments deficits the US dollar lost its gold-standard-parity credibility. It was impossible to maintain the dollar-gold parity in the long term since the policy resulted in a loss of gold reserves (Helleiner 1994: 81–122). To defuse this dilemma the IMF created Special Drawing Rights (SDRs) in 1969 as an additional means of payment which were to supply the liquidity necessary for international trade. But since this did not provide a way out of the dilemma the USA finally gave up gold parity with the dollar in 1971 and the fixed rates became untenable. After a futile attempt to revive the fixed rates in the Smithsonian Agreement of 1971, with revised exchange rates and revised fluctuation bands of up to 4.5 per cent, exchange rates were finally set free in 1973 (Gilpin 2000: 124–5; Spero & Hart 2003).

The passage from fixed to flexible exchange rates fundamentally altered the function of the IMF's loans allocation. In the 1970s, the IMF had become superfluous as a currency buffer and, since the 1980s, it has been operating as a lender of last resort in the framework of a liberal financial and currency order largely without controls on capital movements. The IMF, with 187 member states in 2010, is meant to help, ensuring, through its allocation of loans, that national or regional financial crises – like those in Asia and Russia in 1997, or debt crises like the Mexican one of 1982 and the Brazilian one of 1987 – do not spread and possibly threaten the entire global financial and currency system (Helleiner 1994: 169–91), even though it could not prevent the US financial (mortgage) crisis of 2007 from escalating to the most severe global financial and economic crisis after the Second World War.

In the case of debt and/or financial crises, the IMF's mandate is to help the states concerned, which would otherwise be unable to pay for imports or service its debts. However, recipients must agree to certain structural adaptations. These should ensure that the recipient will be able to service its debts. In other words, these loans come with conditions: the IMF requires the state concerned to alter its domestic and foreign economic policies if it wants to avail itself of the loan. To be able to respond to the demand for loans and fulfil its role as lender of last resort, the IMF has had to restock its quotas several times, with the largest increase in quotas being agreed upon in late 2010 when the Executive Board decided to double quotas to about US\$750 billion.

Operations of the IMF

The granting of loans forms the major part of the operations of the IMF. Specification of the norms and rules for the allocation of loans is of special significance. The IMF determines the size and conditions of the loan to be granted to a state with balance-of-payments problems. Although each state is immediately entitled to draw a temporary loan of 25 per cent of its quota in case of balance-of-payments problems, if it wants a loan up to a (normal) maximum of 300 per cent of its quota it must submit a proposal to the IMF giving details of how it intends to solve its problems. A state can submit such a proposal in the form of a 'letter of intent' whose implementation should help to overcome its balance-of-payments problems and guarantee repayment of the loan to the IMF. The IMF lays down conditions for budgetary, financial, market and labour policies, often with far-reaching consequences for the society of the state requesting the loan (Barnett & Finnemore 2004; Martin 2006). The state's policies must be approved by the Executive Board of the IMF before the loan requested can be granted (see Chapter 3). The loan is usually released in instalments, with later instalments dependent upon the state adhering to its commitments (Driscoll 1998: 19–24).

The IMF disposes of a number of loan instruments, or 'facilities', tailored to different types of countries and the specific nature of the most common problems (see IMF 2011). The three main non-concessional facilities, which are subject to the IMF's market-related interest rate, are the Stand-By Arrangements (SBA), the Extended Fund Facility (EFF) and the Flexible Credit Line (FCL). Under the SBA the IMF gives loans to help states deal with short-term balance-of-payments problems. The loan will be paid in instalments over one or two years provided that the state keeps to its promised reforms. Repayments are expected within three to five years. The EFF, introduced in 1974, is generally used for structural difficulties in the balance of payments, which is why instalments are phased over a period of three to four years with repayment within four to ten years. The FCL, introduced in 2009, is intended as an instrument for countries with strong economic fundamentals facing current balance-of-payment pressures. It is meant to serve crisis-prevention and crisis-mitigation purposes. The length of the FCL is one or two years and the repayment period the same as for the SBA. FCL arrangements are approved only for countries with strong economic fundamentals; but no specific policy conditions are imposed on recipients, which distinguishes the FCL from the SBA. Moreover, in 1995 the IMF established for situations of acute financial crisis an Emergency Financing Mechanism (EFM) to enable it to grant loans very quickly in the face of sudden balance-of-payments problems of member states. While being largely dormant after the Asian Crisis of

1997, this mechanism was
Global Financial and Econ

In addition, low-income
terms through a number
1996, the IMF launched the
initiative to provide rapid
HIPC initiative was modified
the links between debt relief
enhanced HIPC initiative
structural and social policy
health and education. In
Economic Crisis, the IMF ag
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repaid within five years.
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loan instruments, or 'facilities', tai- and the specific nature of the most The three main non-concessional IMF's market-related interest rate, BA), the Extended Fund Facility (CL). Under the SBA the IMF gives t-term balance-of-payments prob- ements over one or two years pro- mised reforms. Repayments are The EFF, introduced in 1974, is ries in the balance of payments, d over a period of three to four ten years. The FCL, introduced in or countries with strong economic of-payment pressures. It is meant itigation purposes. The length of repayment period the same as for proved only for countries with o specific policy conditions are quishes the FCL from the SBA. d for situations of acute financial nism (EFM) to enable it to grant n balance-of-payments problems ormant after the Asian Crisis of

1997, this mechanism was (re-)activated several times during the recent Global Financial and Economic Crisis (2007–10).

In addition, low-income countries may borrow on concessional terms through a number of short-term and long-term facilities. In 1996, the IMF launched the Heavily Indebted Poor Countries (HIPC) initiative to provide rapid debt relief for such countries. In 1999, the HIPC initiative was modified to improve debt relief and to strengthen the links between debt relief, poverty reduction and social policies. The enhanced HIPC initiative foresaw macroeconomic adjustment and structural and social policy reforms including higher spending on basic health and education. In 2010, after the Global Financial and Economic Crisis, the IMF again reformed its system of support to low-income countries and established three new concessional facilities: the Extended Credit Facility (ECF), the Standby Credit Facility (SCF) and the Rapid Credit Facility (RCF). This reform aimed at making financial support more flexible and better tailored to the different needs of low-income countries. The ECF succeeds the Poverty Reduction and Growth Facility (PRGF) as the IMF's main tool for providing medium-term support to low-income countries with protracted balance-of-payments problems. Financing under the ECF carries a zero interest rate, with a grace period of five and a half years and a final maturity of ten years. The SCF provides financial assistance to low-income countries with short-term balance-of-payments needs. It can be used in a wide range of circumstances, including on a precautionary basis. It comes with a zero interest rate, with a grace period of four years, and a final maturity of eight years. The RCF provides rapid financial assistance with limited conditionality to low-income countries facing an urgent balance-of-payments shortfall. With a zero interest rate, it has a grace period of five and a half years and a final maturity of ten years. Finally, the IMF also provides emergency assistance to countries that have experienced a natural disaster or are emerging from conflict. Emergency loans are subject to the basic rate of charge and must be repaid within five years.

The IMF's operational activities refer not only to the provision of loans but also to their financing. The main sources of finance are the quotas which member states pay on joining the organization, based broadly on each country's relative weight in the world economy. Up to a quarter is paid in a widely accepted foreign currency and three-quarters in the state's own currency. This represents the maximum financial contribution which a state must put at the IMF's disposal. However, given constant change in the overall world economy and in that of individual states resulting in a growing need for loans, the quotas need to be regularly adapted to new circumstances. Accordingly, the Executive Board reviews the quotas at least every five years to recommend a possible increase, which requires the approval of at least 85 per

cent of member states' votes in the Board of Governors. For example, in December 2010 the IMF's Board of Governors approved to conclude a review of quotas that foresees an unprecedented 100 per cent increase in total quotas (up to more than US\$730 billion) and a realignment of quota shares (to the benefit, particularly, of Brazil, China, India and Russia) to better reflect the changing relative weights of the IMF's member states in the global economy.

Since the IMF quotas might not suffice to provide the loans needed, the organization has the possibility of itself borrowing from its members based on the General Arrangements to Borrow (GAB) of 1962 and the New Arrangements to Borrow (NAB) of 1997, which have been renewed and slightly reformed several times. Both arrangements were negotiated in a process of bureaucratic politics on several levels between the IMF and some of its member states. Twenty-six industrialized states (as of the end of 2010) have agreed to make available loans of up to US\$51 billion to the IMF when large sums are necessary to secure the stability of the international financial and monetary system. In the wake of the 2007–10 Global Financial and Economic Crisis the IMF has undertaken a significant enlargement of the NAB. Under a proposal on an expanded and more flexible NAB adopted by the Executive Board in April 2010, the NAB is to be expanded to about US\$550 billion, with the addition of 13 new participant states, including a number of emerging market countries such as Brazil, China, India or Russia. This aims at ensuring that the IMF has enough financial means at its disposal in the event of a renewed crisis to prevent the crisis from spreading to and jeopardizing the international financial system as a whole.

The IMF not only specifies norms and rules; it also implements them directly. This holds in particular for the disbursement – and repayment – of loans, characterized by a standard operating procedure. After agreeing to such a loan the IMF disburses it itself by making available, to the state concerned, funds in widely accepted foreign currencies obtained from other states either as quotas or as a loan. The borrowing state 'purchases' these foreign currencies with its own currency. For example, Russia may draw its loan in dollars, yen or euros by depositing roubles with the IMF. When repaying, the state in question will repurchase its own currency with the foreign currency.

Loans are provided under an arrangement which stipulates in advance the performance criteria for success or failure of the recipient's agreed reform plan. This reduces the need to supervise how the plan is implemented and concentrates on verifying whether the agreed targets have been reached. Measures for success are mostly macroeconomic indicators such as the inflation rate, national savings or the external debt of a country, usually checked quarterly or semi-annually, in the framework of a standard operating procedure. If, in the light of these

criteria, a reform plan is successful, the IMF can withdraw its support. In addition to new reform efforts

The IMF does not limit the size of a loan but extends this support through annual consultations and monetary policies of five members of the IMF and through annual consultations with five members of the IMF for a few weeks to collect and sift information on unemployment, inflation, interest payments and public expenditures in consultation with government officials. Economic policy being pursued should be changed. The IMF issues a detailed report which is submitted to the Board of Governors. These reports have been published as part of a regular assessment. With this monitoring of potential financial crises in mind (Schirm 2007: 267–73). In the wake of the Global and Economic Crisis, the IMF has become a lender of last resort but also a provider of stability through strengthening national, regional and global

Information activities of the

Like most international organizations, the IMF reports regularly upon its own activities and general developments in the world. It holds press conferences of the Executive Director on its homepage on the Internet and publishes a bimonthly magazine *IMF Survey*.

The IMF also collates all economic data on the economic situation, especially in emerging markets. The IMF's homepage provides statistics on individual countries and on market developments. Since 1997 the *International Financial Statistics* is a major source for aspects of international economic development. The biannual publication *World Economic Outlook* provides a development of individual states and a global economic situation and a forecast of development. The *World Economic Outlook* provides recommendations on the economic policies for a sound development of the world

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rules; it also implements them disbursement – and repayment l operating procedure. After s it itself by making available, accepted foreign currencies otas or as a loan. The bor- rency with its own currency. in dollars, yen or euros by paying, the state in question foreign currency.

gement which stipulates in ss or failure of the recipient's to supervise how the plan is g whether the agreed targets are mostly macroeconomic onal savings or the external rly or semi-annually, in the ure. If, in the light of these

criteria, a reform plan is deemed not to have been implemented successfully, the IMF can withhold further instalments or tie their continuation to new reform efforts to be negotiated.

The IMF does not limit its monitoring to reform plans agreed as part of a loan but extends this to the entire economic, currency, financial and monetary policies of its member states. In essence, this is done through annual consultations with each member state, when four or five members of the IMF administration visit a country for about two weeks to collect and sift through data about growth, foreign trade, unemployment, inflation, interest rates, salaries, money supply, investments and public expenditure. Furthermore, they hold intensive discussions with government representatives to establish whether the economic policy being pursued is successful or whether, and if so how, it should be changed. Thereafter, the IMF representatives write a detailed report which is submitted to the Executive Board. Since 1997 these reports have been published along with the Executive Board's assessment. With this monitoring system the IMF aims at recognising potential financial crises in advance and at being able to prevent them (Schirm 2007: 267–73). In the wake of the 2007–10 Global Financial and Economic Crisis, the IMF has reasserted its roles not only as lender of last resort but also as monitoring guardian of global financial stability through strengthened surveillance of financial markets at the national, regional and global level.

Information activities of the IMF

Like most international organizations the IMF collects information. It reports regularly upon its own activities, those of its member states and general developments in the IMF. This is done through the regular press conferences of the Executive Board and especially through its homepage on the Internet (www.imf.org) as well as through its bimonthly magazine *IMF Survey*.

The IMF also collates all essential information about the world economic situation, especially the national and international financial markets. The IMF's homepage provides an abundance of data and statistics on individual countries as well as regional and global financial market developments. Since 1948, the IMF has published the monthly *International Financial Statistics* which has become the standard source for aspects of international and domestic finance. The IMF's biannual publication *World Economic Outlook* analyses the economic development of individual states or groups of states as well as the global economic situation and gives a forecast of future economic development. The *World Economic Outlook* also contains recommendations on the economic policies of states, aimed at contributing to a sound development of the world economy. The biannual *Global*

Financial Stability Report, which, since 2002, has replaced the annual *International Capital Markets*, examines developments on the national and international financial markets and helps to alert states to potential dangers for international finance and the currency system. With these reports the IMF contributes to a common evaluation of a crisis situation by the governments of member states as well as banks and investment houses, which can often be of decisive importance for remedial action. It also promotes particular conceptions of sound and successful financial policies on both national and international levels (Chwieroth 2009).

The IMF's views are buttressed by its extensive research activities. The results of this research, published in various series and magazines such as the *IMF Research Bulletin*, are intended to give authoritative evaluations and form the basis for economic-policy recommendations.

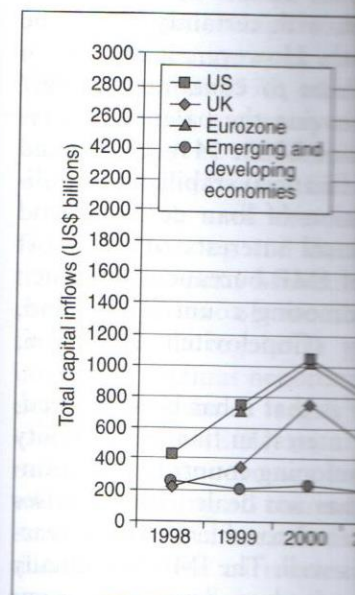
Evaluation of the organization's effectiveness

The IMF has contributed to establishing and maintaining a more open global financial and monetary order. It has been largely effective in spreading the policy idea that capital ought to flow across country borders with minimal restriction and regulation, turning freedom of capital movements into the new orthodoxy (Abdelal 2009: ch. 6; Barnett & Finnemore 2004: ch. 3; Chwieroth 2009). Thus, the IMF has been one, though certainly not the only one, of the forces driving the exponential growth of global capital flows in the 1990s and 2000s (see Figure 9.3).

However, it is very doubtful whether this increased openness of financial markets has always contributed to promoting financial stability. Among the IMF's staff, capital controls became a heresy in the 1980s and 1990s, prompting critics to accuse the IMF of indiscriminately encouraging the liberalization of capital controls and thereby precipitating a wave of financial crises in emerging markets in the late 1990s (Chwieroth 2009).

In fact, the record of the IMF in contributing to a stable global financial and monetary order is mixed. It was unable to prevent the debt crises of developing countries in Latin America in the 1980s as well as the financial crises in Asia or Russia in the 1990s. Nonetheless, until the 2007–10 Global Financial and Economic Crisis, it did manage to prevent national or regional financial crises from escalating into global ones. This recent Crisis has unveiled the serious limits to the IMF's capacity in crisis prevention. In that sense, the IMF, just as many other national and international financial supervisors, has failed seriously. Serious deficiencies in the IMF's capacity to predict and prevent financial crises have even been pointed out by the Independent Evaluation Office (IEO) of the IMF. In the run-up to the recent Crisis a

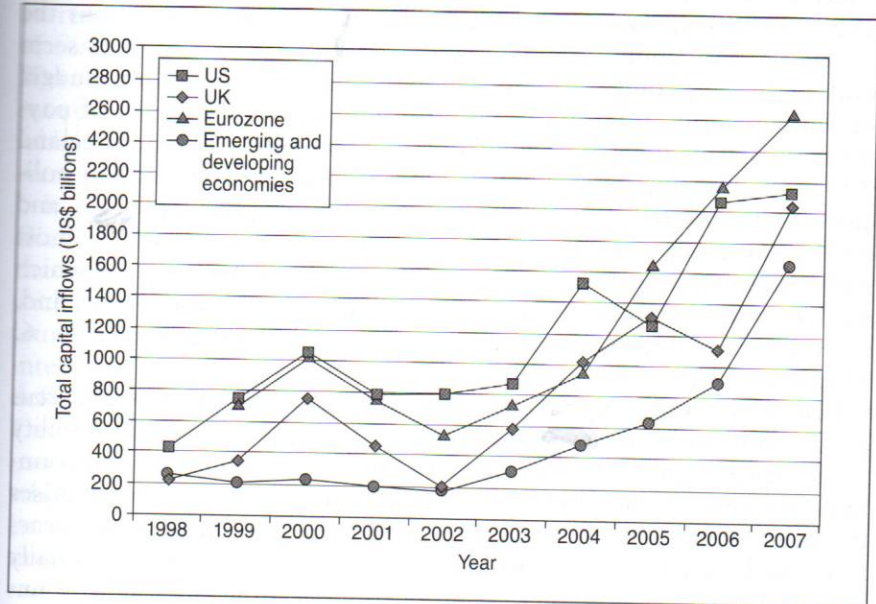
Figure 9.3 Global capital



Source: Based on data from IMF (2010)

high degree of organizational intellectual capture by the transnational supervisory authorities in the modern analytical approaches undertaken to alert the market. Moreover, the IMF's effectiveness in advising on financial policies and consulting on surveillance fails to be organized for learning. Multilateral surveillance that a greater delegation of authority to the organization is missing (Lombardi & Paradoxically, the recent Crisis has functioned as international public good, as outlined in the rescue of Greece, and other economies after a decade of liberalization to private capital markets (Underhill et al. 2010: 4). However, lending in terms of promoting economic growth is subject to controversy. Studies find no significant effects

Figure 9.3 Global capital flows, 1998–2007 (inflows in US\$ billions)



Source: Based on data from IMF (2010a: 6; 2010b: 16).

high degree of organizational groupthink within the IMF's staff, intellectual capture by the transnational financial industry as well as supervisory authorities in the most advanced economies, and inadequate analytical approaches undermined the IMF's ability to detect important risks and to alert the membership to these risks (IEO 2011: v). Moreover, the IMF's effectiveness in monitoring member states' financial policies and consulting with them is limited in that multilateral surveillance fails to be organized in a way that promotes institutional learning. Multilateral surveillance is further constrained by the fact that a greater delegation of authority by member states to the organization is missing (Lombardi & Woods 2008).

Paradoxically, the recent Crisis has reinvigorated the IMF, for its function as international public lender of last resort has been underlined in the rescue of Greece, Hungary, Iceland, Romania, Ukraine and other economies after a decade in which states had increasingly turned to private capital markets for borrowing (Moschella 2010: 148–51; Underhill et al. 2010: 4). However, the empirical record of IMF lending in terms of promoting financial stability and promoting economic growth is subject to controversial scientific debate. A number of studies find no significant effect of IMF lending on economic growth,

and some even argue that IMF programmes have had a negative effect on growth (Steinwand & Stone 2008: 124, 141–3; Vreeland 2007: 89–90). In fact, very little is known with certainty about the effects of IMF lending on economic growth. However, it does seem that IMF programmes can indeed contribute to containing budget deficits, lowering inflation levels and improving the balance of payments in recipient states (Steinwand & Stone 2008: 141–3; Vreeland 2007: 89–90). The success of this kind of financial stabilization policies can be undermined by the politicization of loan decisions and conditions along the economic and political interests of the most powerful shareholder states (as well as of IMF bureaucrats), which can be at odds with the objective of promoting country-level and, even more so, global systemic stability (Copelovitch 2010b: 6; Momani 2004).

One further criticism directed at the IMF is that it has been preoccupied mainly with the developed countries' interest in financial stability while neglecting the specific interests of developing countries and countries in transition (Stiglitz 2002). Thus, it has not dealt with the crises of developing countries unless they threatened to unleash chain reactions liable to affect developed countries as well. The IMF has equally been criticized because loan conditions imposed on developing countries have made it more difficult for them to combat poverty effectively. The IMF has reacted to this criticism by altering its loans programmes in such a way as to focus more on the fight against poverty and to assist developing countries in escaping from the debt trap, though preliminary empirical evidence does not look all too promising (see the discussion on the World Bank below). The new facilities introduced in 2010 offer loans at more concessional rates and explicitly stress the importance of poverty reduction programmes.

European monetary relations: the EU

Several regional international organizations have developed their own programmes and related operational and information activities in the financial area, especially since the 1970s. When, at the global level, a system of flexible exchange rates began to assert itself, several international organizations attempted to keep fixed exchange rates, at least at the regional level. Here again, as in the area of trade, the EU can be seen as a precursor in internationally harmonized monetary (and fiscal) policy.

Policy programme of the EU

Originally, the EU policy programme did not envisage common mon-

etary policies. Nevertheless, exchange rates began to change to a system of flexible exchange rates within the framework of the Werner Plan of 1970, which aimed at transferring economic and monetary union to a system of fixed exchange rates which aimed at transferring economic and monetary union to a system of flexible exchange rates.

It was not until the joint efforts of Giscard d'Estaing and Helmut Schmidt that the European Monetary Unit (EMU) was launched. The regulative programme defined a system of largely stable exchange rates of member states, the European Currency Unit (ECU) as a common unit of account, while combining all currencies into a single currency but, similar to the SDU, the ECU was composed of member states' currencies in proportion to their economic weight (Levitt & Lord 2001: 2–4). At the heart of the EMS (which was joined) was the commitment to a system of flexible exchange rates in the range of 4.5 per cent (although direct intervention if the current rate simultaneously reached the upper limit of the range. If, for the upper limit and the Italian federal bank and the Italian national bank sell German marks on the market, created an additional supply of marks for the lira, allowing the demand for the lira, allowing the base rate. To ease such international credit mechanisms of which concerned could avail themselves in addition to their own currency (2001: 2–4).

In the late 1980s and early 1990s, the participating states were largely the EMS. In the context of the single currency (124–5), the economic and monetary

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not envisage common mon-

etary policies. Nevertheless, when the existing global fixed exchange rates began to change to a system of flexible rates, efforts to base currency relationships within the European Community on a regime of fixed exchange rates emerged quite rapidly. However, neither the Werner Plan of 1970, which already foresaw the establishment of an economic and monetary union, nor the 'monetary snake' of 1972, which aimed at transferring the IMF's monetary order to Europe, were put into practice (Eichengreen & Frieden 2001: 2–6).

It was not until the joint initiative of French President Valéry Giscard d'Estaing and German Chancellor Helmut Schmidt in 1978 that the European Monetary System (EMS), aimed at stabilizing the exchange rates of member states' currencies, was successfully launched. The regulative programme of the EMS, developed in an intergovernmental negotiating process, became effective in 1979 and defined a system of largely stable exchange rates using the European Currency Unit (ECU) as a point of reference. Accordingly, for each member state's currency an exchange rate with the ECU was fixed, while combining all currencies in a parity grid. Base rates could only be changed if it became impossible to hold the exchange-rate relationships of the currencies. The ECU was not an independent currency but, similar to the SDR of the IMF, a 'basket currency' composed of member states' currencies on the basis of their economic weight (Levitt & Lord 2000: 32).

At the heart of the EMS (which most but not all EU member states joined) was the commitment of each member state to intervene in international financial markets to maintain exchange rates within the range of 4.5 per cent (although in exceptional cases 6 per cent was permissible) in the grid of bilateral base rates. There was a duty of direct intervention if the currencies of two or more member states simultaneously reached the upper (+2.25 per cent) or lower (-2.25 per cent) limit of the range. If, for example, the German mark was at the upper limit and the Italian lira at the lower one the German federal bank and the Italian national bank were obliged to buy lira and sell German marks on the international financial markets. This created an additional supply of German marks and an additional demand for the lira, allowing the two currencies to converge towards the base rate. To ease such interventions the EMS provided for different credit mechanisms of which the central banks of the countries concerned could avail themselves to finance their interventions, in addition to their own currency reserves (Eichengreen & Frieden 2001: 2–4).

In the late 1980s and early 1990s, the exchange-rate stability of the participating states was largely maintained with the help of the EMS. In the context of the single-market project (Wegner 1991: 124–5), the economic and monetary union already envisaged in the

Werner Plan of 1970 was taken up again (Moravcsik 1998: 379–471). In 1989 a committee headed by the then President of the European Commission, Jacques Delors, submitted a report (the ‘Delors Report’) proposing the establishment of a European Economic and Monetary Union (EMU) in which the individual European currencies would be replaced by a European currency under the supervision of a European Central Bank (ECB). The EMU was to be created in three stages (Wolf 1999: 77–105). In the first stage greater coordination of economic and monetary policies was envisaged, to be followed by the creation of a European system of central banks and the establishment of an independent ECB. Finally, in the last stage, the different member states’ currencies were to be replaced by a common European currency.

After lively discussions between those in favour of monetary union, especially France and Germany, and those who viewed this project rather sceptically, especially the UK, the breakthrough came in the intergovernmental negotiations, leading to the consensus anchored in the Treaty of Maastricht (Cameron 1995: 57–73; Moravcsik 1998: 379, 471; Wolf & Zangl 1996). Thus, on 1 June 1998 the ECB was established, with its monetary policy committed exclusively to the stability of the euro. The ECB is as independent in its monetary policy as was previously the German Bundesbank, now united with the other central banks of the member states in the European System of Central Banks (ESCB). Thus, neither the governments of the 17 currently participating states, nor any other organ of the EU can direct European monetary policy. This is strictly a matter for the ECB (Nugent 2006: 326–7).

To prevent individual member states of the EMU from attempting to push the costs of fighting inflation on to other members of the euro zone, thus threatening all members with additional risks of inflation, the members-to-be had already introduced convergence criteria into the Treaty of Maastricht. Thus, only those states that met these criteria could become members of the EMU. The annual budget deficit of a member state was not to exceed 3 per cent of its GDP and its total debt no more than 60 per cent of GDP. In addition, its inflation rate was not to exceed the average of the three best-performing states by more than 1.5 percentage points, while its interest rates were not to exceed the three best by more than 2 percentage points. Currency stability within the normal fluctuation margins of the EMS for at least two years was also stipulated prior to membership (Wolf 1999: 192–5). Finally, to curb inflation in the long term, the Council of the EU decided through the Stability and Growth Pact, agreed at a meeting in Dublin in December 1996, that member states would need to adhere to the stability criteria in relation to new debt after the establishment of the EMU or face a fine.

Operations of the ECB

The states participating in the important operational activities. Given its independence, the ECB the centralized-rational-choice of the Governing Council, consisting of participating central banks and the ECB, sets the base rate. The President and Vice-President of the President and Vice-President of the consensus. Both the supranational E the central banks of the 17 partici

nate monetary policy within the fr the conditions under which comm the central banks. In this way th because commercial banks will b when the base rate is high than wh is influenced because commercia interest rates when the base rate is tion.

In addition, the ECB can decide financial markets. If the exchange r reserves to buy euros, thus strength currencies such as the US dollar. If the use euros to purchase other currenc the euro exchange rate. If the ECB central banks for the implementatio Governing Council, the ECB Execu directives to them.

In fiscal policy the situation is m compelling. The debt situation of European Commission has the auth annual budget of a participating mem passes the margin of 3 per cent of i Growth Pact. However, the 2010 Eu most severe financial turmoil of the E actually had run up excessive budget shortcomings of the monitoring and al

If, after the Commission’s alert, a s reduce its debt the Commission is ob Council after consulting the Econo ECOFIN), composed of the economic member states. If ECOFIN establishes, l

ken up again (Moravcsik 1998: 57-73). Led by the then President of the Commission, Jacques Delors, submitted a report (the Delors Report) on the establishment of a European Economic and Monetary Union (EMU) which the individual European currencies would be replaced by a common European currency under the supervision of the ECB. The EMU was to be created in three stages. In the first stage greater coordination of monetary policies was envisaged, to be followed by the second stage of a system of central banks and the establishment of a common currency. Finally, in the last stage, the different national currencies would be replaced by a common European

currency. Those in favour of monetary union, and those who viewed this project as a breakthrough came in the form of the consensus anchored in the Maastricht Treaty (Nugent 1995: 57-73; Moravcsik 1998: 57-73). On 1 June 1998 the ECB was established, committed exclusively to the stability of the euro. It is independent in its monetary policy as the European Central Bank, now united with the other central banks of the European System of Central Banks (ESCB). The governments of the 17 currently participating member states of the EU can direct European monetary policy through the Governing Council for the ECB (Nugent 2006: 100-101).

One of the main objectives of the EMU from attempting to move towards a single currency to other members of the euro area was to reduce inflation, with additional risks of inflation, reduced convergence criteria into the Maastricht Treaty. Those states that met these criteria were allowed to join the EMU. The annual budget deficit of a member state must not exceed 3 per cent of its GDP and its total debt must not exceed 60 per cent of its GDP. In addition, its inflation rate was to be no more than 1.5 percentage points above the best-performing states by more than 1.5 percentage points. Interest rates were not to exceed 5 percentage points above the best-performing states. Currency stability was to be maintained for at least two years. Membership (Wolf 1999: 192-5). In the Maastricht Treaty, the Council of the EU agreed at a meeting in Maastricht that the member states would need to adhere to the Maastricht criteria for debt after the establishment of

Operations of the ECB

The states participating in the EMU have transferred to the ECB important operational activities relating to the stability of the euro. Given its independence, the ECB can make decisions corresponding to the centralized-rational-choice model. The highest organ of the ECB, the Governing Council, consisting of the 17 governors of the participating central banks and the six members of the Executive Board of the ECB, sets the base rate. The Executive Board comprises the President and Vice-President of the ECB and four other members nominated by the governments of the participating states on a basis of consensus. Both the supranational Executive Board and the presidents of the central banks of the 17 participating member states have to coordinate monetary policy within the framework of the ECB.

Base rates are the central instrument of the ECB since they determine the conditions under which commercial banks can borrow money from the central banks. In this way the ECB controls monetary stability because commercial banks will borrow less from the central banks when the base rate is high than when it is low. Stability of the currency is influenced because commercial banks will themselves raise their interest rates when the base rate is high, thus reducing the risk of inflation.

In addition, the ECB can decide to intervene in the international financial markets. If the exchange rate is weak it can decide to use its reserves to buy euros, thus strengthening the euro vis-à-vis other currencies such as the US dollar. If the exchange rate is too high, it will use euros to purchase other currencies such as the US dollar to lower the euro exchange rate. If the ECB needs the assistance of members' central banks for the implementation of decisions taken by the ECB Governing Council, the ECB Executive Board is authorized to issue directives to them.

In fiscal policy the situation is more complicated, and overall less compelling. The debt situation of states must be monitored. The European Commission has the authority to alert the Council if the annual budget of a participating member state approaches or even surpasses the margin of 3 per cent of its GDP set by the Stability and Growth Pact. However, the 2010 Euro Crisis and, in particular, the most severe financial turmoil of the EMU member state Greece, which actually had run up excessive budget deficits for years, revealed the shortcomings of the monitoring and alert system.

If, after the Commission's alert, a state does not take measures to reduce its debt the Commission is obliged to submit a report to the Council after consulting the Economic and Financial Committee (ECOFIN), composed of the economics and finance ministers of the member states. If ECOFIN establishes, by qualified majority, that there

is an 'excessive deficit' it must resort to sanctions. However, there are some loopholes, introduced in 2005 under the pressure of France and Germany, which then surpassed the allowed budget deficit of 3 per cent. The decision to declare a country in 'excessive deficit' can now rely on certain parameters beyond the hard figures laid down in the Stability and Growth Pact, including the duration of a slow growth period. If, nevertheless, declared in 'excessive deficit', states face sanctions that initially take the form of a refundable deposit paid to the EU. This is transformed into a fine if the state concerned does not take the necessary measures within a two-year period to reduce its excessive deficit. The fine, which must not exceed 0.5 per cent of the state's GDP, consists of a fixed component of 0.2 per cent of GDP and a flexible component of 10 per cent of the new debt which exceeded the permitted budget deficit of 3 per cent of GDP. To avoid having to request the imposition of a fine against a member state the Commission has developed a procedure by which it alerts the state concerned to the threatened excessive budgetary deficit. After a decision in the Council requiring a qualified majority, the Commission sends a 'blue letter' warning the state to take corrective measures, thus avoiding the need for formal proceedings.

Despite these important operational activities of the EU organs, monetary and, in particular fiscal coordination or even integration, are far from being complete. This has become very clear in the 2010 European debt crisis (Euro Crisis). It turned out that Greece, Ireland and Portugal had amassed excessive deficits, making it extremely costly for them to borrow from private capital markets. Moreover, with these three members of the euro zones in danger of bankruptcy, the financial stability of the whole euro area was compromised and the euro came under speculative attack. As a reaction to the Euro Crisis, the finance ministers of the euro area created in 2010, with the support of the IMF, a massive bailout package to support these struggling states, prevent a sovereign debt crisis spreading through the eurozone and deter speculative attacks on the euro. As temporary crisis mechanisms the European Financial Stability Facility (EFSF) and the European Financial Stabilization Mechanism (EFSM) were established. Supported by the IMF, these are able to grant emergency loans (guaranteed by eurozone member states) of up to 750 billion euros to eurozone states in serious financial difficulty. In 2010 and 2011 Greece, Ireland and Portugal obtained emergency loans totalling several hundred billion euros. Beyond these operational activities to mitigate the acute Euro Crisis, member states' governments have decided to tighten the Stability and Growth Pact (by introducing harsher sanctions for states in excessive deficits) and to create a 'permanent crisis mechanism', the European Stability Mechanism (ESM). As it is the case with the EFSF and the EFSM, loans under the permanent crisis mecha-

nisms will be subject to coo
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Evaluation of the organiza

The recent history of financi
considered a success story, no
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tary policies (Buti et al. 2010
Global Financial and Econo
the inflation rate within the
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Thus, the ECB can be cre
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among European citizens ha

to sanctions. However, there are under the pressure of France and allowed budget deficit of 3 per cent in 'excessive deficit' can now be hard figures laid down in the duration of a slow growth 'excessive deficit', states face sanctions refundable deposit paid to the state concerned does not take a year period to reduce its excessive deficit 0.5 per cent of the state's GDP and a flexible debt which exceeded the per cent of GDP. To avoid having to request a member state the Commission has alerts the state concerned to the After a decision in the Council Commission sends a 'blue letter' measures, thus avoiding the need

activities of the EU organs, integration or even integration, are become very clear in the 2010 turned out that Greece, Ireland deficits, making it extremely costly markets. Moreover, with these danger of bankruptcy, the financial compromised and the euro came to the Euro Crisis, the finance 2010, with the support of the support these struggling states, through the eurozone and As temporary crisis mechanisms (EFSF) and the European (EFSM) were established. to grant emergency loans (guaranteed up to 750 billion euros to eurozone. In 2010 and 2011 Greece, emergency loans totalling several operational activities to mitigate governments have decided to (by introducing harsher sanctions) to create a 'permanent crisis mechanism' (ESM). As it is the case for the permanent crisis mecha-

nisms will be subject to conditions negotiated among the applying state, the European Commission, the ECB and IMF and must be approved by the eurozone member states. Thus, the reactions of the EU's member states to the 2010 Euro Crisis suggest a further broadening of the EU's operational activities in financial policy in the future. At the same time, the limits of the EU in monitoring (and disciplining) member states' fiscal policies have become quite apparent (see the evaluation of the organization's effectiveness, below).

Information activities of the ECB

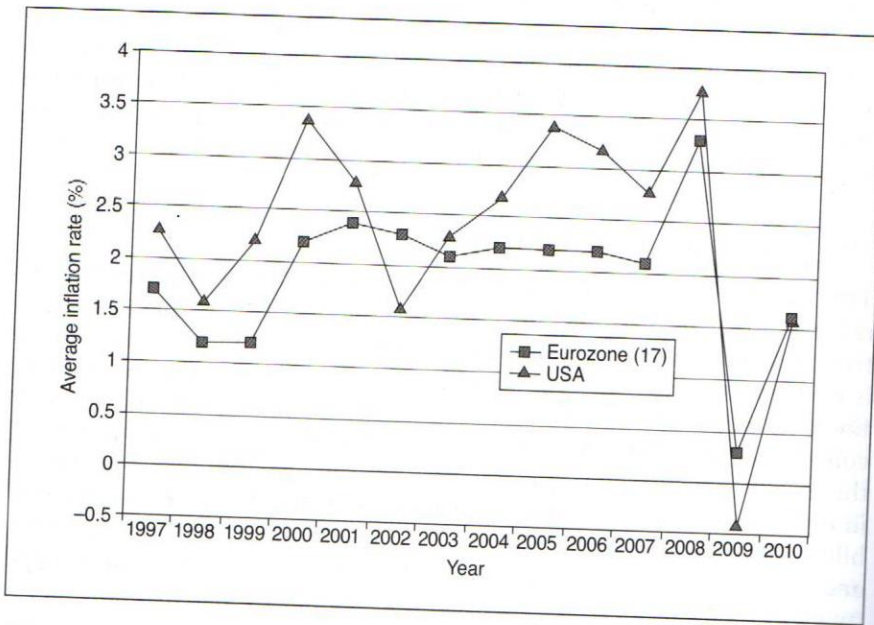
The ECB takes on numerous information activities. It is dependent on reliable information about the current economic development of countries, and not only of those in the eurozone. This kind of information is necessary to have at least the chance to make rational choices in its financial policy. In this the ECB functions both as a producer and a collector of information. It must carefully analyse the rate of inflation, the money supply, interest rates and economic growth in the eurozone in order to set the base rate in harmony with the aim of monetary stability. These analyses are published regularly, in its *Monthly Bulletin* and *Annual Report*, both available on the ECB's homepage (www.ecb.int). The ECB also uses both publications to report upon and justify its monetary policy.

Evaluation of the organization's effectiveness

The recent history of financial integration in Europe can generally be considered a success story, notwithstanding the crisis that has plagued financial sectors in Europe and elsewhere since 2008. Over the past decades, there has been significant progress in the establishment and implementation of supranational financial and monetary rules (Grossman & Leblond 2011). The introduction of the euro was a remarkable feat in the history of European monetary and financial integration. Despite much criticism and predictions that it would quickly collapse, the first decade of the euro has been a remarkable success in terms of macroeconomic stability and anti-inflationary monetary policies (Buti et al. 2010: 1, 10–11). At least prior to the 2007–10 Global Financial and Economic Crisis the ECB succeeded in keeping the inflation rate within the euro area at a relatively constant and low level (see Figure 9.4). Moreover, inflation within the eurozone has generally been lower than in the USA.

Thus, the ECB can be credited with sustaining a high level of monetary stability (Deroose et al. 2007; Geraats 2010; Neumann 2010), even though generally high perceptions of the ECB's output legitimacy among European citizens have deteriorated since 2008 (Jones 2009).

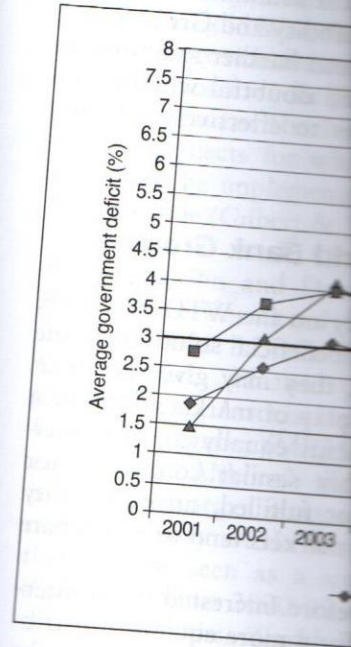
Figure 9.4 Inflation in the eurozone (17 states) and the USA, 1997–2010



Source: Based on data from Eurostat (2011a).

Clearly, the Achilles' heel of European monetary relations is the EU's weak capacity to ensure fiscal soundness within the eurozone and to coordinate and adjust national macroeconomic policies (De Grauwe 2006; Hallerberg & Bridwell 2008; Pauly 2009; Von Hagen & Wyplosz 2010). The obvious problems the Commission encounters in monitoring fiscal policies and cautioning states with a 'blue letter' when they are in danger of failing to meet the stability criteria show the precarious state of cooperation between member states in the fiscal area. For example, in the early 2000s Germany and France repeatedly had government deficits higher than the 3 per cent (of GDP) allowed under the Stability and Growth Pact (see Figure 9.5). After years of (more or less pronounced) fiscal soundness before the recent Financial and Economic Crisis, government deficits in the eurozone have skyrocketed during the Crisis. The instruments of the Commission under the Excessive Deficit Procedure to bring states back into compliance with the Stability and Growth Pact are insufficient as are its capacities to reliably monitor member states' fiscal policies. This became apparent in the 2010 European sovereign debt crisis when it turned out that Greece, despite being subject to the

Figure 9.5 Government deficit in Germany, 2001–2003



Source: Based on data from Eurostat.

Stability and Growth Pact... deficit of more than 13 per cent... the EU had to call on the... Greece, Ireland and Portugal... of the EU in autonomously... occurring within the monetary... Despite these limitations, an extraordinary transfer of sovereignty... However, the transfer of monetary... problems, as economic development... continues to vary. The ECB has... on the average economic activity... growth of some states the ECB... (2004). This can have a negative... zone. As far as fiscal policy is concerned... far the European-level crisis mechanism... to the 2010 European sovereign debt... Financial Stability Facility and

urozone (17 states) and the USA, 2001-2010

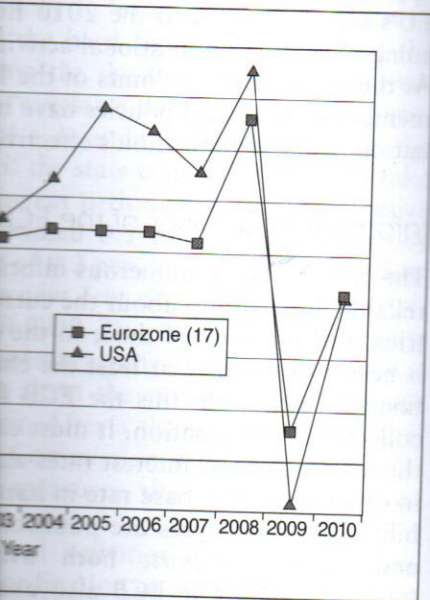
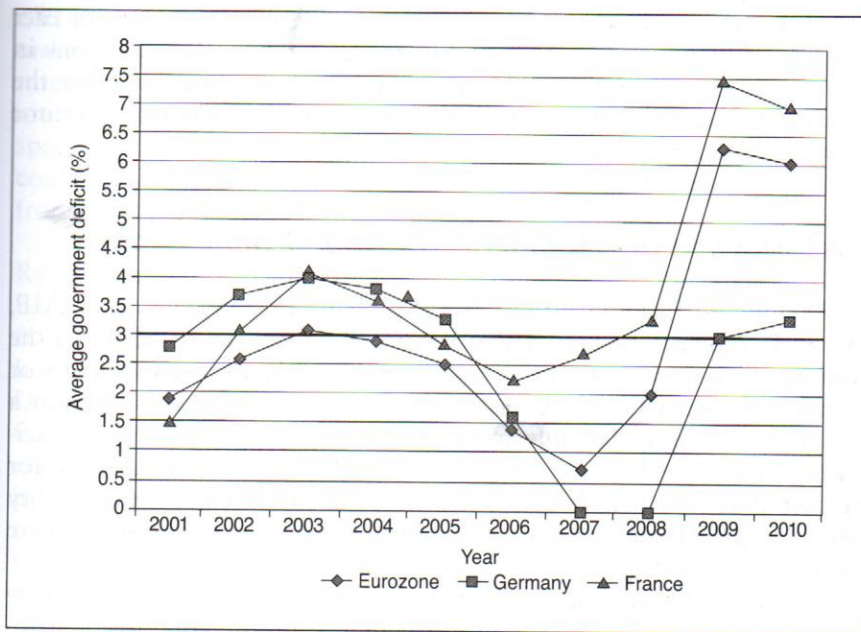


Figure 9.5 Government deficit in the eurozone, France and Germany, 2001–2010 (net borrowing, % of GDP)



Source: Based on data from Eurostat (2011b).

European monetary relations is the soundness within the eurozone. National macroeconomic policies (De Haan 2008; Pauly 2009; Von Hagen 2009) the Commission encourages member states with a 'blue book' cautioning states with a 'blue book' failing to meet the stability criteria. In the early 2000s Germany and France had higher than the 3 per cent (of GDP) deficit soundness before the crisis, government deficits in the crisis. The instruments of the Deficit Procedure to bring states into compliance and Growth Pact are insufficient to monitor member states' fiscal deficits. The 2010 European sovereign debt crisis, despite being subject to the

Stability and Growth Pact, had actually amassed a government deficit of more than 13 per cent (of GDP). Moreover, the fact that the EU had to call on the support of the IMF to jointly bail out Greece, Ireland and Portugal in 2010/11 is an indicator for the limits of the EU in autonomously managing and containing financial crises occurring within the monetary region.

Despite these limitations, in both monetary and fiscal policy an extraordinary transfer of sovereignty has occurred within the EU. However, the transfer of monetary policy to the ECB is not devoid of problems, as economic development among the eurozone countries continues to vary. The ECB has to orientate its monetary policy based on the average economic activity in the entire eurozone. Thus, for the growth of some states the ECB's base rate can be too high (Enderlein 2004). This can have a negative effect on growth in the entire eurozone. As far as fiscal policy is concerned, it remains to be seen in how far the European-level crisis mechanisms that were established in reaction to the 2010 European sovereign debt crisis, namely the European Financial Stability Facility and the European Financial Stabilization

Mechanism, as well as the future permanent European Stability Mechanism, will succeed in better safeguarding financial stability in the euro area. To improve eurozone states' fiscal soundness euro area member states have initiated a reform of the Stability and Growth Pact in early 2011 which will provide for quicker and harsher sanctions in the case of non-compliance. However, it is still doubtful whether the EU has sufficient competencies and capacities to effectively monitor member states' fiscal policies.

Disparities in development: the World Bank Group

The trade and financial orders based globally on the WTO and IMF, and in Europe on the EU, facilitate mutually beneficial solutions of the welfare dilemma. However, simultaneously, they may give rise to or exacerbate disparities in development. The play of market forces in a liberal economic order only distributes benefits equally to all participating states if they all dispose of roughly similar conditions for market participation. If this premise is not fulfilled, an eventuality which is the rule rather than the exception, markets tend to exacerbate existing welfare disparities.

Almost all developing countries are therefore interested in an international economic order that can provide for a more equitable distribution of benefits. But developed countries, too, have a long-term stake in a fairer distribution of the benefits of liberal international trade and financial relations; the unequal distribution of benefits contains a real danger of undermining the legitimacy of the liberal global economic order. Most developed countries thus find themselves caught between long-term and short-term interests. While in the long term they favour a fairer distribution of wealth, in the short term the existing distribution is more attractive. Developed countries' tendency of preserving existing disparities may even increase as serious economic contenders emerge from the ranks of developing countries. What is more, even if all developed countries were to favour a fairer distribution, for each one there would still remain the temptation to take a free ride by avoiding the costs, for instance, of development assistance. Ultimately, this welfare dilemma can only be overcome through international cooperation and governance, both among developed countries and between developed and developing countries. This will be discussed using the World Bank Group as example.

Policy programme of the World Bank Group

The policy programme of the World Bank Group (see Chapter 3) is mainly redistributive, which is what sets it apart from the regulative

programmes of the international
the mandate of the World Bank
its less developed member states
end of the Cold War, the countries
task is to provide these countries
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The World Bank Group con
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programmes of the international organizations discussed so far. It is the mandate of the World Bank Group to support the development of its less developed member states in the South, and also, following the end of the Cold War, the countries in transition from the East. Its main task is to provide these countries with loans, some at the usual market rates and some under preferential conditions, as well as offering technical assistance. The loans and technical assistance are allocated for specific projects for which private finance is not available or which could not be implemented independently without technical assistance from outside (Gilbert & Vines 2000; Metzger 2002).

The World Bank Group consists of the International Bank for Reconstruction and Development (IBRD), usually known as World Bank, which was already conceived at Bretton Woods in 1944 (Gilbert & Vines 2000: 12–17). The World Bank's affiliate organizations, the International Finance Corporation (IFC), the International Development Association (IDA) and the Multilateral Investment Guarantee Agency (MIGA) were established in 1956, 1960 and 1988, respectively. Although the IBRD, IDA, IFC and MIGA are formally independent organizations with different sources of finance and loan conditions they are de facto so much intertwined organizationally that they can be seen as a single organization, the World Bank Group (Gilbert & Vines 2000: 12–21).

Originally the World Bank concentrated almost exclusively on rebuilding the war-ravaged areas of Europe. This changed following the decolonialization of countries formerly controlled by European states in the 1960s and 1970s. The growing number of developing countries turned developmental disparities into a problem for developed countries; in particular their greater voting power in the UN compelled the developed countries to take into account the developing countries' request for a more equitable distribution of welfare (Krasner 1985: 141–51). They had to react to protect the stability of the liberal world economic order against the challenge of a 'new international economic order' (NIEO) demanded not only by the Third World but also by public opinion in their own societies. To prevent an NIEO they accepted the expansion of the multilateral financing of development through, inter alia, the institutions of the World Bank Group (Marshall 2008; Spero & Hart 2003).

The financial basis of the World Bank itself is its share capital subscribed by member states which the Bank uses to sell bonds on international financial markets. The subscriptions are based on a state's relative weight in the world economy, which also determines its voting share in the Board of Governors and the Board of Directors. However, the World Bank only has a small amount of this share capital directly at its disposal. Member states must only pay 20 per cent of their quotas in a freely convertible currency, the Bank being able to call on

the remaining 80 per cent at any time. This makes the World Bank creditworthy on private capital markets and thus it can borrow to make capital available to its loan recipients (Gilbert & Vines 2000: 10–21; Marshall 2008: 59–92).

The Board of Governors of the World Bank, on which member states are represented by their finance and development-aid ministers, had raised the share capital of the World Bank step by step to approximately US\$275 billion by the end of 2010. The IBRD uses this capital to sell (top-rated) bonds on international financial markets which in turn finance lending to developing countries. Its capacity for making loans has broadened substantially, mainly by borrowing on the international capital markets and through repayments of earlier loans. Since 1964 net gains from financial transactions are no longer used to provide loans from the IBRD but are mostly passed to the IDA. IBRD loans are almost exclusively granted to states. Loans to private investors are exceptional and must be backed by a repayment guarantee from a sovereign government (of the investor or of the country where the investment is to take place). Loans are normally granted for 15 to 20 years (with a three-to-five-year grace period before repayment of principal begins) and at a somewhat more favourable rate of interest than commercial market rates.

IDA loans are 'soft loans'. They run for 20, 35 or 40 years and are de facto interest-free with a merely administrative fee of 0.75 per cent. Repayments are made after a grace period of ten years. Because of these very favourable terms only those member states of the World Bank which had a per capita income in 2009 of less than US\$1165 and lack the financial ability to borrow from IBRD can request these loans. By the end of 2010, some 80 states had the right to such loans. Unlike the IBRD, which operates almost like a conventional bank, the IDA is more of a fund administration. To be able to provide such favourable loan conditions it requires regular restocking of its financial means and relies on repayments of IDA loans from recipient countries, interest-free contributions from member states as well as on allocation of IBRD resources. The financially strong members of the World Bank meet every three years to determine the extent of replenishment. In December 2010 some 50 donor countries put US\$49 billion at the IDA's disposal for the period 2011–14. This sixteenth restocking (IDA-16) represented an 18 per cent increase in overall resources over the previous replenishment. It is one of the largest expansions of IDA resources since the 1990s.

The financial sources of the IFC are practically identical to those of the IBRD but states must pay their contributions to the share capital in full. Just as with the IBRD, the IFC's share capital has been raised repeatedly by decisions of the Board of Governors to US\$2.4 billion (as of the end of 2010). Repayable external means are only sought

from the IBRD and the difference between the fact that loans can be made to countries without a Furthermore, the IFC limited period.

The MIGA aims at opening countries through a capital base of US\$1 billion. It covers political risks such as currency devaluation, violent conflict, or expropriation. Multinational Corporations or financial institutions are either incorporated in a member country. The MIGA does a calculation of both a risk rating ranging between 0.45 per cent of investment per year. It provides guarantees for projects in total amount of US\$22.4 billion in coverage. It advises governments on the balance between investors and g

Operations of the World Bank

Since redistributive projects are particularly difficult to implement, they have some significance. These projects are transferred to specific project stages. In the first stage, a strategy giving first clues is developed, deemed worthy of support. This stage involves development projects and countries. Technical assistance.

Formally, it is the responsibility of the World Bank to determine the strategy. The President and the Board of Governors determine the strategy and the government. Of course, they cannot ignore the interests of the states. On the whole, the World Bank rejects the development strategy of the bureaucratic apparatus. The World Bank states are trying to influence the strategy with these actions. The President and administrative staff are of autonomy in designi

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ad the right to such loans. Unlike
e a conventional bank, the IDA is
e able to provide such favourable
tocking of its financial means and
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practically identical to those of
tributions to the share capital in
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f Governors to US\$2.4 billion
ternal means are only sought

from the IBRD and not on the private capital markets. The decisive
difference between this organization and the IBRD and the IDA lies in
the fact that loans can be allocated to private investors in developing
countries without a sovereign government's repayment guarantee.
Furthermore, the IFC can become an equity partner in a business for a
limited period.

The MIGA aims at promoting foreign direct investment in devel-
oping countries through investor insurances. Founded with an initial
capital base of US\$1 billion, the MIGA insures investors against polit-
ical risks such as currency transfer restrictions, expropriation, internal
violent conflict, or breach of investment contracts by governments.
Corporations or financial institutions are eligible for coverage if they
are either incorporated in, or have their principal place of business in,
a member country. The MIGA prices its guarantee premiums based on
a calculation of both country and project risk with annual premiums
ranging between 0.45 per cent and 1.75 per cent of the insured amount
of investment per year. Since its inception, MIGA has issued 980 guar-
antees for projects in more than 100 developing countries, totalling
US\$22.4 billion in coverage (as of end of 2010). The MIGA also
advises governments on attracting investment and mediates disputes
between investors and governments.

Operations of the World Bank Group

Since redistributive programmes like those of the World Bank Group
are particularly difficult to implement, its operational activities are of
some significance. These programmes, within which resources are
transferred to specific projects, require specification, formulated in two
stages. In the first stage, the Group presents a global development
strategy giving first clues to the nature of the project or the countries
deemed worthy of support. In the second stage, it selects specific devel-
opment projects and countries which are then to receive financial and
technical assistance.

Formally, it is the responsibility of the Board of Directors of the
Bank to determine the basic features of project financing. In reality,
the President and the bureaucratic apparatus determine the develop-
ment strategy and the guidelines for the allocation of loans, though,
of course, they cannot ignore donor states' interests in loan alloca-
tions. On the whole, the Board of Directors merely approves or
rejects the development strategies and guidelines worked out by the
bureaucratic apparatus. Thus, while both NGOs and large donor
states are trying to influence decisions and Bank staff is building
coalitions with these actors, the World Bank Group, through its
President and administration, is still enjoying a relatively high degree
of autonomy in designing development projects (Woods 2000:

137–47). However, it deserves notice that this relatively high degree of bureaucratic autonomy from direct member state control has not only contributed to selecting projects deemed optimal for recipient countries as the centralized-rational-choice model would have it. In accordance with the standard operating-procedures and bureaucratic-politics models the World Bank has also developed a powerful and resilient organizational culture as well as serious intra-bureaucratic in-fighting over material resources that have harmed the World Bank's effectiveness and capacity for reform, not least in programme development (Weaver 2008).

The development strategy, as specified by the World Bank Group, has gone through four phases. The changes from phase to phase mainly reflect new research findings, some by the Group itself, as well as a reaction to the dynamics of the world economy (Kanbur & Vines 2000). In the first phase of 'modernization without worry' (Tetzlaff 1996: 73), it mainly supported large infrastructure projects in transport, energy, telecommunications and the like. The development strategy of the 1970s saw a significant shift in emphasis. Robert McNamara, as President (1968–81), promoted financing of projects of various sizes in agriculture and rural development. The new key concepts were basic-needs orientation, investment in the poor and redistribution with growth.

The sobering effect of the growing debt crisis of many developing countries from the start of the 1980s, and the change in paradigm to a neo-liberal monetary economic policy in the USA and the UK (Higgott 2001), forced the World Bank Group to respecify its programme for the gradual removal of developmental disparities. In this third phase, in conjunction with the IMF, the strategy of structural adjustment was developed. With the help of Structural Adjustment Programmes (SAPs) the creditworthiness of developing countries was to be re-established as quickly as possible in order to focus once again on the fight against poverty. The Group and the IMF linked the allocation of loans initially to macroeconomic conditions and later even to political conditions (Barnett & Finnemore 2004). While the later political conditions were inspired by Western liberal thought on democracy and good governance, the macroeconomic conditions were influenced by neoclassical economics (Chwieroth 2009; Ferreira & Keely 2000: 159–74). The application of neoclassical economics to the area of development assistance led to a ten-point catalogue of measures which the Group and the IMF made the benchmark for their policies in relation to countries receiving loans. This became known informally as the 'Washington Consensus' (see Box 9.1; Higgott 2001; Williamson 1990).

Box 9.1 The ten-point Washington Consensus

1. fiscal discipline
2. redirection of public expenditure to education and infrastructure
3. tax reform (combining a broad-based tax with a broad-based rates)
4. liberalization of interest rates
5. competitive exchange rates
6. trade liberalization
7. liberalization of inward foreign investment
8. privatization (of state enterprises)
9. deregulation (of business activities)
10. guarantee of effective property rights

Source: Williamson (1990).

At the beginning of the 1990s, with criticism from both within and without, the World Bank Group was commissioned to look into the failures of its development programmes strategy, the Wapenham Review. The review was a learning process which had also been undertaken by other organizations such as Oxfam or World Vision. James D. Wolfensohn, submitted a report in 1990, which outlined a strategy, that of a Comprehensive Development Strategy, which, in many points, is also reflected in the Millennium Development Goals. For the first time, concrete targets. Thus, in conjunction with the Economic Cooperation and Development Organisation (OECD) and the UN, six key targets were to be met by 2015: halving the number of people living in absolute poverty, halving child mortality by two-thirds, and the achievement of universal primary education. Discarding the emphasis on macroeconomic conditions, focused attention on the other side of the coin, the social and human aspects of development. The strategy policy (the IMF) and social policy (the World Bank) became the cornerstone of the new strategy. The 'Post-Washington Consensus' (Higgott 2001) emphasized principles of ownership and (recipient) participation already present in the Washington Consensus. There should be less imposition of conditions by international organizations and more dialogue between governments and private actors in the recipient countries.

notice that this relatively high degree of direct member state control has not been deemed optimal for recipient countries. A market-choice model would have it. In the case of operating-procedures and bureaucratic procedures, the World Bank has also developed a powerful influence as well as serious intra-bureaucratic resources that have harmed the World Bank for reform, not least in programme

specified by the World Bank Group. The changes from phase to phase are, some by the Group itself, as well as the world economy (Kanbur & Vines 2000). 'Liberalization without worry' (Tetzlaff 2000) infrastructure projects in transport and the like. The development of a significant shift in emphasis. Robert Kahn promoted financing of projects of infrastructure development. The new key concept was investment in the poor and redistribu-

ing debt crisis of many developing countries, and the change in paradigm to a policy in the USA and the UK. The World Bank Group to respecify its programme of developmental disparities. In this case, the IMF, the strategy of structural adjustment in the help of Structural Adjustment Loans. The business of developing countries was made possible in order to focus once again. The Group and the IMF linked macroeconomic conditions and development (Khan & Finnemore 2004). While inspired by Western liberal thought, the macroeconomic conditions of neoclassical economics led to a ten-point catalogue of reforms. The IMF made the benchmark for recipient countries receiving loans. This became the 'Washington Consensus' (see Box 9.1;

Box 9.1 The ten-point catalogue of the Washington Consensus

1. fiscal discipline
2. redirection of public expenditures (from subsidies to investment in education and infrastructure)
3. tax reform (combining a broad tax base with moderate marginal tax rates)
4. liberalization of interest rates (market-determined interest rates)
5. competitive exchange rates
6. trade liberalization
7. liberalization of inward foreign direct investment
8. privatization (of state enterprises)
9. deregulation (of business activities)
10. guarantee of effective property rights

Source: Williamson (1990).

At the beginning of the 1990s, the World Bank Group had to deal with criticism from both without and within. A report it had commissioned to look into the failures of the structural adjustment programmes strategy, the Wapenhans Report of 1992, started a lengthy learning process which had also been called for by several large NGOs such as Oxfam or World Vision. In early 1999, the then President, James D. Wolfensohn, submitted a plan for a new, fourth development strategy, that of a Comprehensive Development Framework (CDF) which, in many points, is also reflected in the United Nations Millennium Development Goals. For the first time, the Group set itself concrete targets. Thus, in conjunction with the Organization for Economic Cooperation and Development (OECD), the IMF and the UN, six key targets were to be met by 2015. Among these were halving the number of people living in absolute poverty, the reduction of child mortality by two-thirds, and the achievement of primary education for all. Discarding the emphasis on macroeconomic reforms, the CDF focused attention on the other side of the coin – the structural, social and human aspects of development. The integration of economic policy (the IMF) and social policy (the World Bank Group) represents the cornerstone of the new strategy which has since been dubbed the 'Post-Washington Consensus' (Higgott 2001). The CDF takes up the principles of ownership and (recipient-state as well as civil-society) participation already present in the Wapenhans Report. Thus, there should be less imposition of conditions by the Bank on recipient governments and more dialogue between the World Bank Group, the state and private actors in the recipient countries. Finally, the strategy aims

at better coordinating the efforts of other (public and private) donors (Goldberg 2000).

On the basis of the relevant development strategy, with its specific selection criteria, the World Bank Group chooses definite projects for its loans. To identify projects worthy of support the Group draws up a *country report* for each possible beneficiary in which the general economic situation of the country is analysed. On the basis of such a report the Group's development experts proceed to a *sector analysis*. This is a detailed analysis of the economic, financial, technical, infrastructural and social contexts of the country deemed worthy of support. The country report and sector analysis provide the basis for the five-year *development plan* drawn up by the Group for the relevant country. It lists projects that could be supported and thus represents a catalogue from which to select projects. The final selection occurs in an *expert report* drawn up after a World Bank Group delegation has inspected conditions locally. After further scrutiny by its Loans Committee the Group starts negotiations with the recipient country in which a *loan agreement* is drawn up describing the project in detail and determining the loan conditions. The agreement is then submitted to the Executive Directors for approval (Marshall 2008: 66–70; Mosley et al. 1995).

Even then the World Bank Group does not entirely relax control over the projects it supports. It often participates directly in the form of technical assistance. But the largest share of technical assistance by the Group is provided before project selection, since the country reports, sector analyses and development plans give indications to the states as to how they could organize their development strategy more effectively. Another important form of technical assistance are the *missions* to assess development projects. Through direct contact with the local institutions and civil society actors involved in the implementation of projects, important changes of direction can be undertaken during the preparatory phase. Although formally states are supposed to submit project proposals to the Group in order to obtain a loan, in reality they are often drawn up by Group experts and discussed locally during a delegation's assessment visit.

Despite this close involvement from the start, the World Bank Group undertakes further inspections to ensure adherence to the agreed loan conditions. It can request either interim reports from the recipient country or send a delegation to inspect whether the project is following agreed procedures. If a country repeatedly disregards the loan agreement, the Group has sanction options at its disposal. It can interrupt or suspend loan disbursement until a state fulfils the agreed conditions (Marshall 2008: 112–35; World Bank 2007: 76–81).

Information activities of the

The World Bank Group has an
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Information activities of the World Bank Group

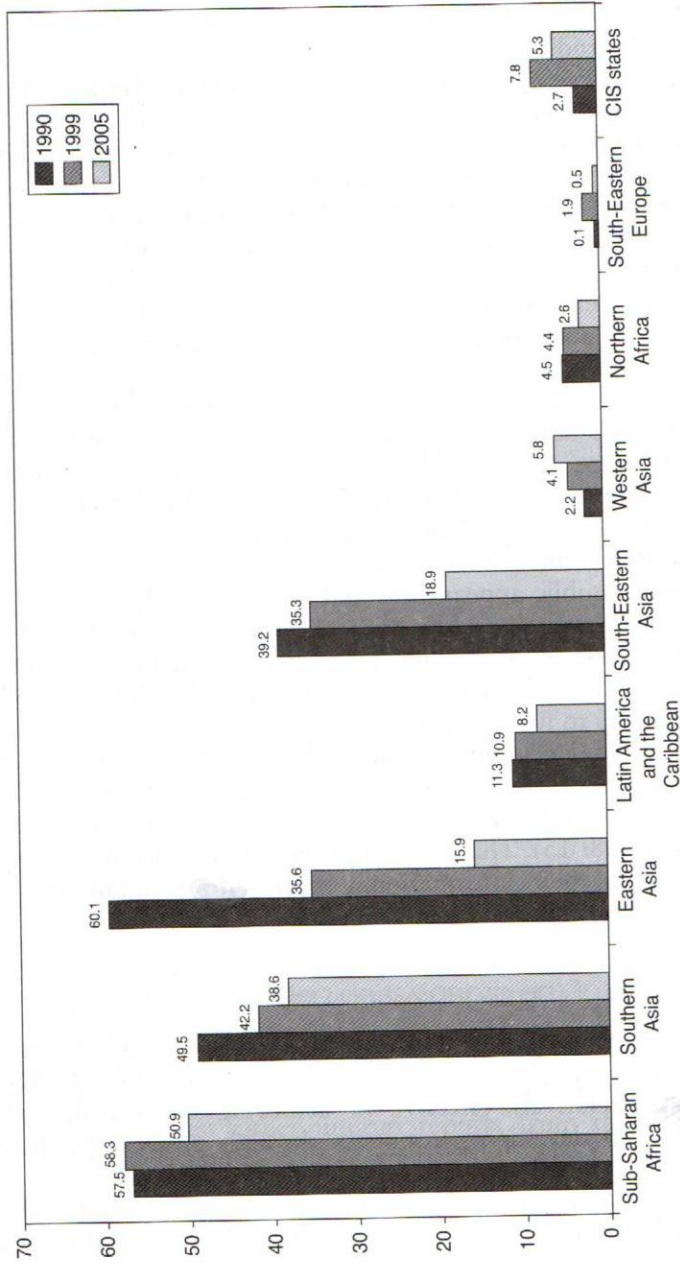
The World Bank Group has an extensive research branch dealing with problems of development (Kanbur & Vines 2000: 88–95; Squire 2000). Its studies not only enjoy high standing in the epistemic community in developing as well as in developed countries (Stone 2000), but also have an influence on public opinion and on the activities of NGOs in the field of development. Its research brings to light hidden and complex interdependencies between developed and developing countries or countries in transition. It creates and sharpens awareness of the development and welfare dilemmas and, therefore, of the need for international cooperation. Its studies also have a considerable impact on debates about development strategies. Its information activities thus create a precondition for its own generation of programmes (Squire 2000).

The World Bank Group is also a major collector and disseminator of information. Several hundreds of annual publications of the Group help to shape world public opinion on development questions. The *World Bank Annual Report*, the *World Development Report* and *Global Development Finance* (an annual review of recent trends in and prospects for financial flows to developing countries), as well as the President's public appearances and his annual address to the Board of Governors, have repeatedly attracted public interest. They have moved the problems of development beyond negotiations in international bodies and placed them on the global agenda. This puts pressure on governments to justify their actions to their own publics, usually to the advantage of developing countries. As far as this pressure is concerned, a strong rapport has emerged between the Group and NGOs active in development aid (Stone 2000; Tussie & Riggiorozzi 2001: 165–7; Weaver 2008: 15). The Group's propensity to open up to NGO participation and their informational input into programme design and implementation has increased (Woods 2007: 239–40).

Evaluation of the organization's effectiveness

An assessment of the World Bank's effectiveness can be made at several levels. In general, there can be little doubt that the World Bank Group is relatively effective in achieving the transfer of sizeable resources to developing countries through projects (Einhorn 2001). However, the real question is whether World Bank grants and loans contribute to improving the socioeconomic conditions of living in developing countries. Thus, a look at global trends in the prevalence of absolute poverty provides a first, albeit very broad, clue as to whether the World Bank's activities have had a positive impact (see Figure 9.6). Within the period from 1990 to 2005 the share of people living in

Figure 9.6 Decrease of absolute poverty: population living on less than US\$1.25 per day, 1990–2005 (%; 2005 purchasing power parity)

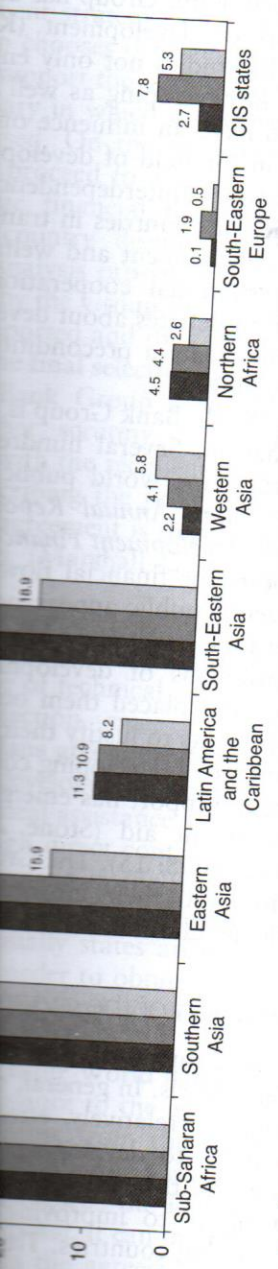


Sources: Based on data from Rittberger et al. (2010: 537); United Nations (2010: 6).

absolute poverty (i.e. on less than US\$1.25 per day) on the global scale (United Nations 2010). The analysis of regional trends casts some doubt on the extent to which the World Bank has played a major role in the decrease of poverty that has occurred in some regions where World Bank lending has been significant. In Latin America and especially in Eastern Europe, the World Bank has been much more involved in the reduction of absolute poverty. In these regions, the means negligible (see Figure 9.6). The data on the factors do certainly not prove the impact of aid, they do suggest that the World Bank scale multilateral lending seems to be a necessary condition for lifting countries out of poverty.

On a somewhat more specific level, it is worth asking whether World Bank lending played a significant role in the reduction of poverty in developing countries. In this respect, the evidence is mixed. On the negative side, Easterly and Ravallion (1991) and by Harrigan and Mosley (1991) have shown that the effects of repeated adjustment lending in the period 1980–99 were able to reduce poverty in only a few countries. Harrigan & Mosley (1991) also found that the effects of Structural Adjustment Loans in Latin America and the Caribbean were very little for sure about the World Bank's impact on poverty in developing countries.

What the 1990s did show, though, was the failure of World Bank development strategy. The shock of the 1990s (like that experienced during the 1980s in Brazil in 1987, led to another re-orientation) move away from the development strategy. After the scope of the crisis increased with the rise of structural



Sources: Based on data from Rittberger et al. (2010: 537); United Nations (2010: 6).

absolute poverty (i.e. on less than US\$1.25 a day) has decreased on the global scale (United Nations 2010: 6). However, a closer examination of regional trends casts some doubts on the proposition that the World Bank has played a major role in this positive development. The largest decrease of poverty has occurred in Eastern Asia, first of all in China, where World Bank lending has been limited. On the other hand, in Latin America and especially in sub-Saharan Africa, where the World Bank has been much more involved in funding development projects, the reduction of absolute poverty is much smaller – though by no means negligible (see Figure 9.6). Whereas these broad macro-indicators do certainly not prove the uselessness of World Bank development aid, they do suggest that the World Bank’s impact is limited: Large-scale multilateral lending seems to be neither a necessary nor a sufficient condition for lifting countries and people out of poverty.

On a somewhat more specific level, scholars have investigated whether World Bank lending promotes (sustainable) economic growth in developing countries. In this regard, the empirical record is inconclusive. On the negative side, Easterly (2005), confirming an earlier study by Harrigan and Mosley (1991), finds that none of the top 20 recipients of repeated adjustment lending from the World Bank over the period 1980–99 were able to achieve reasonable economic growth. Harrigan & Mosley (1991) also identify a negative correlation between Structural Adjustment Loans to a country and foreign investment in this country. Moreover, there is empirical evidence that aid conditionality has often been ineffective in part because conditions and policy reforms have not been implemented (Kilby 2009). However, on the positive side, there are also studies citing evidence that World Bank lending stimulates growth in some cases, primarily by increasing public investment (Butkiewicz & Yanikkaya 2005). Moreover, Crisp & Kelly (1999) show for 16 Latin American cases that structural adjustment was weakly associated with economic growth. Moreover, they found that, surprisingly, structural adjustment programmes were statistically associated with declining socioeconomic inequality (Crisp & Kelly 1999: 548). So we must state that the scholarly literature is split on whether World Bank programmes promote growth and that we know very little for sure about the World Bank’s impact on economic growth in developing countries.

What the 1990s did show, though, is the extent to which success or failure of World Bank development programmes is linked to the development strategy. The shock of the Asian financial crisis of 1997, just like that experienced during the debt crises of Mexico in 1982 and Brazil in 1987, led to another rethink by encouraging an (albeit hesitant) move away from the development model of neoclassical economics. After the scope of the Bank’s activities had dramatically increased with the rise of structural adjustment and conditionality in

the 1980s and the collapse of communism in the 1990s, criticism increased at the turn of the twenty-first century, challenging the effectiveness, legitimacy and reach of the Bank. Additions to the neo-liberal agenda were made throughout the 1990s as concerns by various interest groups came to the fore, including poverty alleviation, debt relief, gender equality and environmental safeguards, amongst others (Park & Vetterlein 2010: 7). As a result, the World Bank set new targets for its programmes at the end of the 1990s on the basis of a 'Post-Washington Consensus' (Higgott 2001). A key element of this new strategy are the Poverty Reduction Strategy Papers (PRSPs). However, preliminary evidence on the impact of PRSPs in Latin America has not been encouraging as yet (Dijkstra & Komives 2010; Guimarães & Avendaño 2010).

Apart from these inconclusive, if not disappointing, results concerning the impact of World Bank programmes on growth and poverty alleviation, the World Bank's effectiveness in addressing global disparities in development is hampered by the prevalence of organized hypocrisy in and around the Bank (Weaver 2008). The World Bank faces ever increasing and at least in part conflicting demands from donor countries, recipients, NGOs and private investors, which are very hard to satisfy at the same time, especially in an organization with an entrenched bureaucratic culture that makes fundamental reform very difficult. As a result, hypocrisy is apparent in the Bank's disregard of its own policy programmes. There is a gap between what the Bank says are its priorities in the alleviation of poverty, stakeholder participation, socioeconomic development and ecological sustainability and what it actually does in the implementation of its programmes. Operationally, poverty reduction, stakeholder dialogue and ecological considerations are still frequently neglected or take second place to goals of macro-economic competitiveness. This organized hypocrisy undermines the authority of the World Bank. As a result of the World Bank's predominant role in development research, contradictions between its words and deeds are taken particularly seriously by donor and recipient states (as well as NGOs), undermining the basis for effective policy consultation among national policy-makers and World Bank staff (Weaver 2008: 2, 9–10).

Finally, independently of the staff's expertise and the formulation and implementation of a concrete and consistent development strategy, the basic World Bank strategy, which emphasizes the transfer of financial resources, can hardly achieve its goal of reducing disparities in development because it is unable to influence a third level: the distributive effects of the prevalent structures of the global economic order based on the WTO and the IMF.

Conclusion

Summarizing, we can say that the World Bank has made a significant contribution to the field of welfare and development through the work of international organizations, though by no means free from bureaucratic pathologies. In economic development and financial policy-making, international organizations are still important actors. This also implies that policy-making depends on the effectiveness of these organizations as well as their ability to strike a balance between their interests and those of the countries they serve.

Discussion Questions

1. What are the main objectives of the World Trade Organization? How is it different from the General Agreement on Tariffs and Trade (GATT 1947)?
2. The World Trade Organization is often referred to as the 'WTO'. What are its main functions? What are the main reasons for its creation (GATT 1947)? What are its main achievements?
3. What are the International Monetary Fund's main functions? How does it prevent and manage global financial crises? What are its main functions and how does it have its main functions?
4. What may explain the creation of the World Trade Organization and the International Monetary Fund? What role have they played in fostering and supporting the development of the European Union?
5. To what extent has the World Trade Organization and the International Monetary Fund influenced the successful implementation of the World Bank's development strategy?

Conclusion

Summarizing, we can say that international organizations make a significant contribution to international cooperation and governance in the field of welfare and economic relations. The operational activities of international organizations are, to varying degrees, quite autonomous from direct member-state interference and well developed, though by no means devoid of deficiencies in effectiveness and bureaucratic pathologies. In contrast to that, the making of economic, development and financial policy programmes reminds us that international organizations are still member-driven organizations in important respects. This also implies that progress in international economic policy-making depends on member states' (convergence of) interests as well as their ability to strike mutually beneficial bargains.

Discussion Questions

1. What are the main obstacles for the further formulation and specification of trade policy programmes within the World Trade Organization?
2. The World Trade Organization's dispute settlement procedure is often referred to as highly judicialized way of settling international disputes. What differentiates this judicialized dispute settlement from a more diplomatic dispute settlement (as in GATT 1947)? What might be its effects on states' dispute behaviour?
3. What are the International Monetary Fund's contributions to preventing and managing financial crises? To what extent have its main functions and instruments changed?
4. What may explain the exceptionally high degree of regional trade and monetary integration in Europe? What role have European Union organs as compared to the member states played in fostering and sustaining this level of cooperation?
5. To what extent has the World Bank's imposition of economic and political conditions on recipient countries contributed to the successful implementation of development programmes?