

# The crisis of neoliberalism and the future of international institutions: A comparison of the IMF and the WTO

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**Abstract** The current crisis of neoliberalism is calling into question the relevance of key international institutions. We analyze the origins, nature, and possible impacts of the crisis through comparing two such institutions: the International Monetary Fund (IMF) and the World Trade Organization (WTO). Both originated in the post-World War II U.S.-led hegemonic order and were transformed as part of the transition to global neoliberalism. We show that while the IMF and the WTO have been part of the same hegemonic project, their distinct institutional features have put them on significantly different trajectories. Historical differences in the two institutions' systems of rules have placed the IMF in a more vulnerable position than the WTO, which provides clues to the future contours of global economic governance.

Less than a decade ago, market-liberalizing ideas and policies reigned supreme. Today, however, the popularity of unfettered markets has declined dramatically. Latin America, once at the cutting edge of a global free-market revolution, is now dominated by left-wing governments elected on explicitly anti-neoliberal platforms. Around the world, economists and policymakers have opined that excessive reliance on unfettered markets was the root cause of the current worldwide financial crisis. At the meeting of the Group of 20 (G20) heads of state in the spring of 2009, British Prime Minister Gordon Brown announced the death of “the Washington Consensus”—the famous list of market-liberalizing policy prescriptions that guided the previous 20 years of economic policy (Painter 2009).

Yet if neoliberalism is dying, the institutions associated with its rise are not all equally moribund. For example, the global economic crisis has unexpectedly

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improved the fortunes of the International Monetary Fund (IMF), an organization long famous for the neoliberal policy conditions attached to its loans. In 2008, a cascade of financial crises in Eastern Europe and Iceland fattened the IMF's dwindling loan portfolio. At the same G20 meeting in which the Washington Consensus was declared to be defunct, the IMF was given a leading role in a new multilateral strategy for tackling global economic problems, and promised a quadrupling of its resources by member governments (Weisbrot et al. 2009). The recent prominence of the IMF contrasts starkly with the current paralysis of the World Trade Organization (WTO), once an apparently unstoppable force for the lifting of barriers to trade and investment. Since 2001, the WTO has been stymied by the stalling of the Doha round of negotiations, mostly due to intractable disputes between developed and developing countries. Consequently, the current crisis of neoliberalism raises many important questions about the international institutions currently governing the global economy: How did such institutions come to play a central role in the neoliberal order? What role, if any, have they played in fostering the crisis? And what is the likely future of international economic governance?

This article addresses these questions through a comparative analysis of the WTO and the IMF. The two institutions have their origins in the post-World War II hegemonic order: the IMF was established as part of the 1944 Bretton Woods agreement, and the WTO originated in the General Agreement on Tariffs and Trade (GATT) in 1947. Yet, we show that during the 1980s and 1990s, both institutions contributed to the shift away from post-war "embedded liberalism" and became pillars of a global, neoliberal order. Led by the United States government, the two institutions' dominant member, both the IMF and the GATT/WTO were transformed in ways that expanded their jurisdictions and their respective capacities to intrude into national economic policies, and to incorporate countries into a global system of market-liberalizing economic rules. These rules, which imposed far greater obligations than those of the postwar period, subsequently became a focal point for criticism and resistance.

Notwithstanding their common neoliberal agenda, we argue that the two institutions have historically-rooted differences in their systems of rules, which have strongly shaped their experiences of the current crisis. Concretely, distinct systems of rule-making, rule-applicability and rule-enforcement contribute to differences in the institutions' mechanisms for responding to dissatisfaction among its members: whereas the IMF's rules encourage disgruntled members to "exit" its rules by abstaining from IMF resources, the WTO provides effective incentives for remaining within the system. They also have created differences in the two organizations' respective appeals to legitimation: whereas the IMF relies more heavily on its technocratic reputation, the WTO depends on procedural legitimacy. These contrasting characteristics, in turn, have generated very different criticisms of each institution and different strategies of resistance by disgruntled members. We conclude that in spite of the IMF's recent re-emergence, it is the WTO that is the more likely of the two institutions to remain a source of transnational rules for national economies, and that institutions resembling the WTO are likely to represent the future of global economic governance.

## World order, hegemony, and international institutions

Since the post-World War II period, multilateral institutions such as the IMF, World Bank, and GATT have played a role in governing the international economy. Although these institutions formally grant participation to multiple governments, many international relations theorists have noted their intimate connection to the hegemony of the state that has dominated the international arena since that time—the United States government (cf. Waltz 1979; Baldwin 1993; Wallerstein 1974; Gowan 1999; Shaw 2000; Cox 1987).

In the classical Gramscian sense, hegemony is a form of domination that is maintained not simply through coercion or force, as neo-realists would argue, but also through consent, achieved by means of moral and intellectual leadership and material compromises (Gramsci 1971; Cox 1987; Burawoy 2003). For neo-Gramscian international relations scholars, a hegemonic world order relies partly on the material capabilities of a dominant state—including its military might and its economic power. However, hegemony also depends on dominant ideas and collective images, and on institutions, which “reflect the power relations prevailing at the point of origin and tend, at least initially, to encourage collective images consistent with these power relations” (Cox 1986, p. 218). In this view, institutions are essential for the construction and maintenance of hegemony because they help soften domination by diffusing legitimating ideas and granting concessions to subordinate forces.

International institutions were crucial for the consolidation of U.S. hegemony during the post-World War II period. Through judicious negotiation and the making of concessions at the United Nations Security Council, the IMF, the World Bank and GATT, powerful sectional interests could be presented as the general interest of all under a universal policy (Gale 1998, p. 273). This hegemonic world order was based on a Fordist-Keynesian model of national capitalism (Cox 1987; Gill 2003), and it rested on the ability of the IMF, GATT, and other international institutions to reconcile domestic policy aims, especially full employment, with gradual opening and liberalizing of the international economy (Ruggie 1982).

Following the world economic crisis of the 1970s, the United States reinvented its hegemony by transitioning from the post-war “embedded liberal” world order to the Reagan-Thatcher model of neoliberalism and global capitalism (Morton 2003, pp. 162–3; Harvey 2005). This involved a change in the identity and functions of international institutions, which transformed their mandates to accommodate these ideological changes. The World Bank and IMF’s loans and the GATT/WTO trade agreements played an especially important and visible role in the formulation of neoliberal prescriptions, to their legitimation, and in their enforcement worldwide.<sup>1</sup>

<sup>1</sup> For more on IMF impact, see Polillo and Guillén 2005; Henisz et al. 2005; Nooruddin and Simmons 2006; Barro and Lee 2002; Vreeland 2003; Ingram et al. 2005. Many proponents of IMF-imposed rules argue that they are not as effective as they should be (Collier 1997; Easterly 2001, 2006). Yet, the analyses that show that IMF rules fail in about half of the cases inevitably also suggest that they succeed in the other half (Dreher 2002, p. 33). Economic impact is also apparent at the WTO, as member-states have generally reduced tariffs and otherwise adhere to obligations they have taken upon themselves through the international trade agreements.

The hegemony crisis of the 1990s, like that of the 1970s, was manifested in both instrumental concerns over the stability of the neoliberal model and its consequences for capitalism, and in normative concerns over the justice of the model for vulnerable populations and developing countries. A series of crises that began in Mexico in 1995 and then intensified with the Asian financial meltdown of 1997–1998 encouraged and fed off a crisis of legitimacy and authority, with counter-hegemonic resistance coming from progressive elites and nationalist groups in developing countries, global justice and other popular movements world-wide, and the anti-globalist Far Right (Robinson 2005, p. 570). This counter-hegemonic resistance operated at the national level as well as at the international level, targeting in particular the IMF and the WTO. Meanwhile, prominent economists in the United States and elsewhere pointed out that after decades of reform, market-liberalizing policies had not produced the promised benefits for either economic growth or social welfare (Stiglitz 2002, 2006; Rodrik 2006). These criticisms detracted further from the legitimacy of neoliberal governance.

Institutions draw authority and legitimacy from the broader hegemonic project in which they take part. Yet neo-Gramscian scholars agree that institutions may also have life of their own, and they can become a battleground for opposing tendencies (Cox 1986, p. 219). One reason why institutions may elude the intentions of hegemonic powers is that they are “path dependent”: they reflect previous institutional legacies and contests for power; and have a tendency to be self-reinforcing, thwarting the most powerful efforts to reform them. Once in place, institutions impose constraints and opportunities that reshape power relations between competing participants (cf. Thelen 1999, 2004; Thelen and Steinmo 1992; Pierson and Skocpol 2002; Weir 1992; Hall and Taylor 1996). Consequently, international institutions may deviate from the original intentions of the dominant states that designed them, and even create spaces for challenging the balance of power that they originally reflected (cf. Cox 1986, p. 219; Gale 1998, p. 272).

Moreover, because particular institutions control different types of resources, and grow out of distinct institutional legacies, they may offer varying opportunities for resistance, and thus exhibit different levels of resiliency during periods of crisis. At the most general level, the differences between the IMF and WTO grew out of the inherent dynamics of controlling access to different types of resources (Selznick 1949; Pfeffer and Salancik 1977; Oliver 1991; DiMaggio and Powell 1983; Useem 1993). The IMF is an international *financial* institution, in the business of moving large amounts of money. The logical way for the Fund to control the behavior of member governments is through conditioning access to financial resources on particular policies. The IMF’s dependence on member governments to provide it with this capital is reflected in a system of shareholder control and weighted voting analogous to that of private corporations. In contrast, the WTO (and the GATT before it) controls favorable access to world markets. It cannot use money as an incentive, and its governance is rooted in the logic of ongoing diplomatic negotiations rather than shareholder control. Although each institution has been shaped by the overall logic of the resources it controls, we also show that the specific contours of the governance of the two institutions grew out of political dynamics

among member states—dynamics that subsequently became crystallized in institutional arrangements that were difficult to alter.<sup>2</sup>

In the sections that follow, we show that the IMF and the WTO each had a distinct experience of its moment of crisis, and was vulnerable to quite different criticisms and forms of resistance. We argue that three institutional dimensions, or systems of rules, explain the divergent experiences of international institutions in the neoliberal era. The three systems of rules are: how rules are made (*rule making*); who has to comply with the rules (*rule applicability*); and what mechanisms exist for ensuring that rules are complied with (*rule enforcement*). Each dimension represents a particular balance between coercion on the one hand and consent, or consensus-formation, on the other. Each illustrates how the interplay between coercion and consent is institutionalized in a way that carries distinct vulnerabilities and opportunities for criticism and resistance.

We begin by introducing the historical origins of the IMF and the GATT in the post-World War II period. Although the U.S. government dominated the design of both institutions, their respective procedures for rule making were quite different—with the IMF beholden to shareholder governments, particularly the United States, and the GATT based on a diplomatic model of inter-state negotiations. The scope of rule applicability also varied significantly between the two institutions. Most GATT rules were supposed to be followed by all members, although during the postwar years there were many exceptions to this rule. The IMF, in contrast, developed a rather sharp division between the lenient rules of membership and the much stricter contractual rules applied to borrowers—over time, exclusively to developing countries. Initially, these respective systems of rules had little effect on the institutions, since both the postwar GATT and IMF had somewhat circumscribed jurisdictions, and imposed relatively weak rules and systems of enforcement on their members. However, the differences in rule making and rule applicability would have profound consequences to future developments. We then examine how the IMF and GATT were transformed in the 1980s and 1990s, when the United States led an effort to broaden their substantive jurisdictions and powers of enforcement.

Next, we show that while drawing on similar market-liberalizing ideas, these two key institutions of neoliberal governance developed distinct appeals to legitimacy, which were shaped by their different historical legacies of rule making and rule applicability. The WTO system of rule-making provides some political leverage to developing countries, which is completely absent under the IMF procedures, and WTO rules are applied universally to all members, while IMF rules apply only to developing countries. As a result, the IMF and the WTO vary in their source of legitimacy—the IMF relies on technocratic expertise while the WTO relies on procedural justice—and in their degree of policy coherence—the WTO is a much less ideologically coherent and consistently “neoliberal” organization than the IMF.

<sup>2</sup> Another indication that political compromises, more than inherent characteristics of trade and finance, determined the systems of rules of the two organizations is by the consideration and implementation of alternative systems. British unilateralism under *Pax Britannica* offers an example of an alternative means toward trade opening (Webb and Krasner 1989; Pigman 1997). Another alternative is to make trade liberalization a precondition for loans, as practiced by the World Bank and IMF after the 1980s. Moreover, we show below that the practice of “conditionality” was not part of the original charter or mission of the IMF, but was rather added later—largely because of political pressures from the United States.

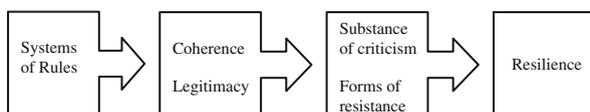
In the third section, we examine how the institutional features of the IMF and WTO have shaped the content of criticism and the forms of resistance to each institution. The movement of the IMF and the WTO into the provision of a much more ambitious array of rules for national economies ultimately triggered resistance to both organizations, and to escalating critiques from both economists and political leaders in developing countries. Yet we show that strategies for critiquing and resisting these two global governance institutions have been quite different. Whereas criticisms of the IMF strike at the heart of its technocratic legitimacy, complaints about the WTO have been less damaging. While resistance to the IMF has assumed the form of “exiting” the system, disgruntled WTO members have been using “voice,” attempting to resolve their complaints from within. In the end, we conclude that systems of rules with WTO-like institutional characteristics represent a more sustainable balance between coercion and consent and are therefore likely to represent the future of global economic governance (Fig. 1).

### The postwar origins of the IMF and GATT

At the end of the Second World War, American and British policymakers negotiated the establishment of three key international institutions to help countries recover from the war and guarantee some measure of global economic stability. The first was the World Bank, which would provide loans for post-war reconstruction and later for development projects, and which is not discussed in this paper. The second was the International Monetary Fund (IMF), which would attempt to control the spread of international economic crises through a special stabilization fund providing loans to countries suffering from balance-of-payments deficits. The third was the General Agreement on Tariffs and Trade (GATT), which would help states negotiate the reduction of trade barriers in manufactured goods.

These international institutions formed part of a U.S.-led new hegemonic world order (Gardner 1980; Ruggie 1982). But while serving compatible economic and ideological roles, the IMF and GATT had significantly different systems of rules.

From the very beginning, the two institutions differed considerably in their rule-making procedures. The IMF, but not GATT, needed access to economic resources to fulfill its function of providing loans to countries in need. This created an important distinction between wealthy countries, which donated those resources, and poor countries, which did not. It also created a quantitative differentiation among wealthy countries, depending on their amount of contribution. Accordingly, IMF procedures followed the logic of a shareholder-controlled organization, in which wealthy countries—particularly the United States—dominated the making and revision of rules (Pfeffer and Salancik 1977). Rule-making procedures were different at the GATT. The GATT did not need financial resources to carry out its mission, and so



**Fig. 1** Systems of rules and their impact on international institutions

monetary contributions could not be used as a source for differential influence. Instead, the GATT was designed as “member-driven” institution, with decisions formally reached by a consensus of all participants. A second important difference between the IMF and GATT lay in their distinct systems of rule applicability. In the case of the IMF, the rules of membership were minimal, with borrowers alone exposed to stricter obligations. In the GATT, in contrast, rules formally applied to all member states, even if in practice that was not often the case.

During the postwar era, however, these differences in rule-making and rule-applicability had only limited impact on substantive outcomes, as both institutions had circumscribed jurisdictions and imposed relatively weak systems of enforcement on their members (IMF) and Contracting Parties (GATT).

### Rule-making and rule-applicability at the IMF

Signed by 45 nations at the Bretton Woods conference in 1944, the IMF Articles of Agreement committed its members to pegging their exchange rates to the U.S. dollar; the United States, in turn, guaranteed the dollar’s convertibility to gold. To help forestall large devaluations, the IMF provided a fund to help stabilize national currencies that were suffering from temporary balance-of-payments deficits due to economic fluctuations.

The structure of the IMF had been negotiated between the United States and the United Kingdom prior to the Bretton Woods conference. To provide loans for countries, the IMF needed access to financial resources. It was decided that each member of the IMF would be assigned a quota that determines its financial commitment to the IMF as well as its relative voting power. The quotas assigned were based on a country’s relative size in the world economy. This organizational blueprint, which awarded the shareholders on the IMF’s Executive Board influence commensurate with capital contribution, inevitably favored wealthy countries. The IMF’s Articles of Agreement gave the greatest decision-making power of all to the United States, the IMF’s largest shareholder, which had the largest bloc of votes, as well as a veto over major policy decisions (Horsefield and De Vries 1969; Block 1977; Dell 1981; Mikesell 1994).

While influence over the making of IMF rules was distributed extremely unevenly, the obligations entailed by these rules were hardly overwhelming. To become members, countries merely committed to pegging their currencies to the U.S. dollar, and to either removing barriers to trading their currencies, or to submitting to regular consultations with IMF staff to remove such barriers in the future (De Vries 1987). Soon after the establishment of the IMF, however, the U.S. utilized the asymmetric system of rule-making to impose much stricter rules on borrowers. At the beginning of the 1950s, the U.S. government pressed for a policy whereby borrowers had to commit to macroeconomic policy reforms as a condition for receiving the IMF’s resources (Block 1977; Dell 1981). This policy was enthusiastically taken up by IMF staff, who believed that borrowers who controlled inflation were better able to adhere to Bretton Woods rules (De Vries 1987). By the end of the 1950s, the Fund had a well-established policy of “conditionality:” to borrow from the IMF, a country had to commit to macroeconomic reforms designed to crack down on inflation, particularly reducing government spending and the money supply. These rules were applied and enforced through contractual

agreements between the IMF and borrowers, known as Standby Arrangements. To ensure that governments complied, disbursements were phased, and resources cut off to countries that deviated from pre-determined fiscal and monetary targets (Babb 2007).

Partly because of these stricter conditions, wealthy industrialized countries came to make little use of the IMF's resources. For countries that could attract it, private capital provided a more generous and less intrusive source of financing than the IMF. By the 1960s, less than 10% of the IMF's lending was going to OECD members (IMF *Annual Reports*, various years). Until the recent debacle with the Icelandic banking system, no wealthy industrialized country had received an IMF arrangement since the 1970s.

### Rule-making and rule-applicability at the GATT

The original postwar plan for the governance of trade was to establish an International Trade Organization (ITO), with a broad mandate and an effective organizational foundation. The ITO was successfully negotiated multilaterally, but the U.S. Congress refused to ratify the ITO Charter, due to some controversial provisions (Diebold 1952). With the demise of the ITO, signatories remained with what was initially conceived as a temporary arrangement: the General Agreement on Tariffs and Trade (GATT).

The GATT committed members to reducing tariffs and other barriers to trade, and to eliminating discriminatory treatment in international commerce—the “unconditional most-favored-nation treatment”—requiring any privilege granted to one country to be accorded to all other contracting parties. But how should a member's tariff reductions be determined? Unlike the IMF, the governance of international trade relations did not require access to financial resources and it therefore could not formalize economic disparities in weighted votes. The possibility of creating a bureaucratic apparatus, which would regulate the reduction of trade barriers from above, was never discussed. In contrast to the IMF, which could be seen as a star-shaped network of individual relationships between the IMF and each individual country, the GATT was understood as the interweaving of bilateral relations between one member state and another. The purpose of a trade agreement was the *exchange* of concessions, with U.S. negotiators emphasizing balanced reciprocity (Hudec 1990, p. 23). Given the focus on inter-state bargaining and *reciprocal* trade openness, the GATT system of rule-making followed a diplomatic model. Agreements were to be concluded in negotiations over the reciprocal concessions each Contracting Party would take upon itself in return to concessions offered by the other Parties. The agreements, which included general obligations as well as particular assignments to specific countries, would be approved by consensus. Following the initial signing of the GATT in 1947, the Agreement was renegotiated once every few years in “rounds” of multilateral negotiations.

The IMF shareholders' control and the GATT's consensus-based system of rule-making created very different opportunities to member states. At the IMF, a U.S.-led coalition of wealthy countries used borrowers' need for loans to impose their policy prescriptions on them. At the GATT, the same coalition still had great impact on the final outcome, but the strategies necessary for exercising this power left poor countries with some room for maneuver.

In the GATT, as in the IMF, wealthy countries' disproportionate influence stemmed from their wealth, as reflected in the size of their markets. The larger a country's market is, the more effective its threats and sanctions, as well as its offering of concessions (Steinberg 2002). Wealthy industrialized countries also had control over the procedures that would allow a consensus to emerge: the initiatives, proposals, alternative packages, draft texts, and so on. These texts reflected the interests of the ones who drafted them and, while open to re-negotiation, often set the contours of the debate (Steinberg 2002; Curzon and Curzon 1973; Finlayson and Zacher 1981; McGillivray 2000; Wilkinson 2000). At the same time, GATT rule-making procedures still allowed less powerful members to represent their interests more effectively than in the IMF. In the rounds of diplomatic negotiations, the need to reach formal consensus meant that even poor countries had some leverage that allowed them to gain substantial concessions. In the mid-1960s, during a particularly contentious period in North-South relations, developing countries established the United Nations Conference on Trade and Development (UNCTAD), which attempted to introduce trade measures that would benefit developing countries, such as stabilizing the prices of primary commodities. Developed countries responded by introducing into GATT new conciliatory rules. In 1971, for example, a so-called Generalized System of Preferences (GSP) allowed developed countries to grant favorable conditions (such as lower tariffs) to imports coming from developing countries, even though this explicitly violated the MFN principle of non-discrimination.

The GATT's rules of applicability were inconsistent in a similar way. On the one hand, the U.S. government and other wealthy countries managed to exclude many of their key protected industries (including apparel and textiles, steel, and many agricultural products) from the process of trade liberalization. At the same time, developing countries were subject to somewhat more lenient rules than developed countries, and member states were able to opt out of at least some of the agreements regulating non-tariff barriers to trade, which many developing countries initially chose to do. In addition, GATT's jurisdiction was quite circumscribed. The multilateral trade negotiations led to quite substantial tariff reductions, particularly after the early 1960s, but some countries replaced these tariffs with non-tariff barriers to trade, such as import licenses and quotas, "buy-national" procurement regulations, product standards, and government subsidies (Winham 1986, p. 353; Cohn 2002, pp. 60–61). The agreements regulating non-tariff barriers to trade, in turn, were generally loose and non-mandatory. The GATT's system of enforcement was also rather weak, as effective adjudication was constrained by the principle of consensual decision-making, which gave defendants the ability to delay or block the procedures (Hudec 1993, p. 54).

As we show in the next section, however, the scope of the GATT's jurisdiction as well as its system of enforcement radically changed in the 1980s, in parallel to similar changes at the IMF.

### **The 1970s hegemonic crisis and its effect on the IMF and GATT**

Beginning in the 1970s, economic stagnation, unemployment, heightened inflation and indebtedness led to the breakdown of the post-war labor-capital "social

contract,” and the abandonment of the Fordist-Keynesian model. In spite of some predictions to the contrary, however, this hegemonic crisis did not end U.S. dominance, but rather “facilitated the material and ideological refurbishing of U.S. hegemony” in the 1980s (Gill 2003, p. 89; see also Robinson 2005). As a consequence, “embedded liberalism” gave way to U.S.-led global neoliberalism (Morton 2003, pp. 162–3; Harvey 2005).

As part of the neoliberal turn at the international level, the U.S. government led a broadening and deepening of the ability of the GATT and the IMF to intervene in national economies. In 1995, the Uruguay Round agreements established the World Trade Organization (WTO).<sup>3</sup> The WTO covered numerous new realms of jurisdiction, required all members to adhere to the rules, and included greatly enhanced enforcement mechanisms. Meanwhile, the IMF’s activities were expanded beyond the imposition of fiscal and monetary policies to the promotion of “structural” reforms, including privatization, trade liberalization, and governmental reforms. The two institutions moved in the same neoliberal direction of facilitating the spread of global markets, the dismantling of various forms of state intervention, and the imposition of a deeper and more comprehensive set of supranational rules.

#### The IMF promotion of structural reforms

On August 15, 1971, U.S. President Richard Nixon announced his New Economic Policy, which included the closing of the Gold Window, and led to the elimination of the Bretton Woods system of pegged exchange rates—the IMF’s principal reason for existence. However, the outbreak of the Third World debt crisis in the early 1980s breathed new life into the Fund and saved it from becoming obsolete (Polak 1991). Rising interest rates and a slowing global economy suddenly raised the possibility that developing countries would default on their debts to private banks, which they had accumulated over the course of the previous decade. Most of these debts were owed to banks headquartered in the United States.

When the Third World debt crisis broke out in 1982, the U.S. government recognized that the IMF was well positioned to help prevent widespread default and a global financial crisis, and it worked with the IMF to persuade both debtors and creditors to find a negotiated solution. As part of the agreement, private banks agreed to use the IMF as the central coordinator of their claims: developing countries could not negotiate with banks directly, but needed first to enter lending arrangements with the IMF (Cline 1995, pp. 205–8). The Fund’s assumption of the mantle of credit rater and debt enforcer significantly enhanced its power over the policies of borrowing governments, for the Fund now acted as a gatekeeper to the private resources as well.

The “Baker Plan,” a program of coordinated debt reduction conceived of by U.S. Treasury Secretary James Baker in 1985, transformed the IMF even further and turned it into an active promoter of the neoliberal agenda. Under Baker’s program, debt refinancing by the IMF and multilateral and private banks would be made conditional on market-liberalizing policy reforms, including “the privatization of

<sup>3</sup> The WTO provided a formal organization to what was previously an informal institutional. The General Agreement (as amended over the years) is still valid.

burdensome and inefficient public enterprises,” the liberalization of domestic capital markets, “growth oriented” tax reform, the creation of more favorable environments for foreign investment, and trade liberalization (Baker testimony in U.S. Congress 1986, pp. 595–6). Following the Baker Plan, the IMF dramatically expanded its substantive jurisdiction. In 1986, the IMF inaugurated its “structural adjustment facility” (SAF), designed to make longer-term loans for “structural reforms,” the terms of which were based on the Policy Framework Papers (Babb and Buirra 2005). In contrast to the older generation of macroeconomic policy conditions (which were also included in the newer IMF lending arrangements), “structural conditionality” was to remake the architecture of national economies along neoliberal, market-friendly lines.

The Baker Plan also enhanced “coordinated lending” between the IMF and the World Bank: from that point forward, Bank and Fund lending would be based on a common “policy framework paper,” and the two organizations would collaborate more closely on plans for restructuring national economies (Dell 1988; Kapur et al. 1997, p. 764; Polak 1996, pp. 489, 502–3). This policy of coordinated lending between multilateral lenders, combined with the closer relationship between the IMF and private lenders, strengthened the ability of the IMF to enforce rules, since failing to meet IMF policy conditions could lead to a cut-off of other sources of financing.

The 1990s brought events that called the efficacy of market-liberalizing reforms into question (see also below). At least initially, this resulted in a further expansion of the IMF’s jurisdiction. The biggest shock to the system was the Asian financial crisis, which caused foreign investors to lose money and threatened to lead to a global financial meltdown. Just as in the earlier Third World debt crisis, the U.S. government stepped in to assume a central role, providing its own resources for the bailout, and organizing other wealthy creditor governments to do the same. Blaming the Asian crisis on weak domestic institutions, the U.S. began to strongly advocate the inclusion of “governance reforms” in IMF programs. These were reforms in national institutions that would allow foreign investors to make rational, informed investment decisions, including the development of independent judiciaries, bankruptcy law reform, banking regulation, and accounting standards. The U.S. also insisted that the IMF and other international lenders “limit or cut off lending when governance problems are severe” (U.S. Congress 1998, p. 143). Since 1998, the Fund, the Bank, and the other multilateral development banks have been heavily involved in overhauling and constructing national institutions through governance-related lending conditions (Kapur and Webb 2000; Kaufmann 2004; Babb and Buirra 2005).

These post-1980 reforms of the IMF’s policy prescriptions—from trade liberalization and privatization (beginning in the 1980s), to bankruptcy law and judiciary reform (since the late 1990s)—are termed “structural,” to distinguish them from the “macroeconomic” reforms that remain alongside the newer structural conditions. Macroeconomic policy conditions are both circumscribed and temporary, leaving underlying institutional arrangements untouched. In contrast, structural conditionality is oriented toward making deep changes in national economic and legal systems that are much harder to reverse. Once a company has been privatized, it is difficult to renationalize it; once a bankruptcy law has passed in Congress, it is next to impossible to go back to the old law. In short, these rules were much more

ambitious and much more intrusive, and aimed at diffusing neoliberal policies worldwide, radically transforming developing economies to be more market-oriented.

### From GATT to WTO

The Uruguay Round of trade negotiations, which was launched in 1986 and concluded in 1994, brought about a highly visible change in the governance of global trade: the establishment of a World Trade Organization (WTO). Unlike the GATT, the WTO was a permanent, formal organization. In addition, the WTO's scope of substantive jurisdiction was greatly expanded to include a wider range of domestic economic policies, its rules of applicability were much stricter than before, and it was more effective in enforcing the rules that it applied.

Just like previous rounds of trade negotiations, the Uruguay Round included the reduction of tariffs. It also introduced new rules regarding non-tariff barriers to trade and tightened existing ones. The “crown jewels” of the Agreement, however, and the main reason the United States initiated the Uruguay Round, were the so-called “new issues” on services, foreign investment, and intellectual property rights.

The Reagan Administration's insistence on introducing these issues reflected its determination to resolve trade deficit problems by advancing those sectors that had the potential of being internationally competitive, but that were restrained by domestic regulations and other barriers of foreign countries. The Administration wanted to make it difficult for governments to impose restrictions, such as local content requirements or technology-sharing arrangements, on American investors. It sought to create a more favorable climate for exporting American services abroad—for example, by making it more difficult for foreign governments to regulate or restrict the entry of American firms in areas such as banking, telecommunications, health care provision, and utilities. And it sought to protect the intellectual property rights of American holders of patents and copyrights, such as drug companies and entertainment companies—in 1988, the U.S. International Trade Commission estimated the annual loss to U.S. industry due to violations of intellectual property rights at \$40 billion (Preeg 1995; Secchi 1997; Chorev 2007a).

Because companies based in industrialized countries were expected to benefit, there was little objection by G7 members to the inclusion of these issues in the Uruguay Round. Developing countries, in contrast, were strongly opposed: they were net importers of capital, technology, and services, and wanted to maintain flexibility where these issues were concerned. They were also worried that failure to comply with regulations covering the new issues would result in retaliation that would affect their exports of manufactured goods, and therefore wanted the different realms of regulations to be separated. However, U.S. negotiators were quite effective in pursuing the “new issues” agenda, combining threats to call off negotiations and to levy retaliatory import restrictions against countries that opposed it with attractive concessions, including the re-integration of trade in apparel and textiles into the liberalizing umbrella of the WTO (Dunkley 2000, p. 46; Preeg 1995, p. 67).

Ultimately, the Uruguay Round Agreement included an agreements on Trade in Services (GATS), an Agreement on Trade-Related Investment Measures (TRIMs), and an Agreement on Trade-Related Intellectual Property Rights (TRIPS). Combined

with other obligations in the agreements, international trade obligations now covered a great scope of rules, which intruded far more deeply into national economic policies than the earlier GATT.

Moreover, unlike the somewhat loose applicability of previous GATT agreements covering non-tariff barriers to trade, a WTO “single undertaking” rule made mandatory the commitment to all WTO rules. Member states could no longer rely on their level of economic development or on the bureaucratic limits of their legal systems to excuse themselves from obligations that would be too strenuous to comply with.

In addition to increasing the scope of jurisdiction and broadening the applicability of rules, the transition from GATT to WTO also significantly enhanced the means of enforcing these obligations. The WTO’s more powerful enforcement mechanisms were most strongly advocated by U.S. negotiators, who realized that with far more intrusive areas of jurisdiction, more reliable disciplines and procedures were needed (Rosenthal and Vermeylen 2000). Strong opposition to this enhanced enforcement came not only from developing countries, but also from the European Community and Japan (Preeg 1995, pp. 35, 77–78; Hudec 1993). The U.S. government forced a “consensus” in support of judicialization by threatening the use of unilateral means if the multilateral judicial processes were not improved. During the Uruguay Round negotiations, the U.S. Congress enhanced a provision that allowed the U.S. government to retaliate if another country violated or denied benefits under a trade agreement. This convinced even rich trading partners to reconsider their position (Preeg 1995, p. 79).

The new system of dispute settlement is based on rules and practices that existed under the GATT, but it makes it more difficult for member states not to play along. Under the new system, defendants can no longer block the establishment of a tribunal, the legal rulings made by tribunals are automatically binding, and defendants cannot veto retaliatory trade sanctions when they fail to comply with legal rulings (Hudec 1993, p. 3). These new arrangements greatly improved member states’ ability to challenge more effectively violations of WTO agreements by other countries.

### **Comparing the IMF’s and WTO’s systems of rules**

As we have seen, during the 1980s and 90s, the IMF and the GATT/WTO became major institutions for the promotion of neoliberal ideas and market-friendly policies around the world. This shared trajectory, however, was accompanied by important differences resulting from the institutions’ systems of rule making, scope of applicability, and enforcement mechanisms. In this section we draw on the historical account above to identify the most important institutional differences between the two organizations. We show that WTO procedures provide more leverage to poor countries than IMF procedures; that WTO obligations apply to all member states, whereas IMF obligations apply only to poor countries in need of loans; and that the enforcement mechanisms of the IMF are less effective than the WTO’s mechanisms. These different systems of rules are responsible for the divergent trajectories of the IMF and the WTO, which we describe in the section that follows.

## Making the rules

Since its founding, the IMF has been a shareholder-controlled organization, with influence on decisions allocated according to capital contribution. The United States has always had the largest voting share, and a veto over major policy decisions. In addition to this formal mechanism, the dominance of the United States is further heightened by other circumstances. These include: the leading role of the U.S. dollar in the international monetary system; the IMF's location in Washington, D.C.; the practice of dominant states of coordinating their position at G-8 meetings before they present them at the IMF; and the tendency of other major shareholders (e.g., Britain, Japan) to follow the U.S. lead when major decisions are being made (Buirea 2005; Woods 2005; Babb and Buira 2005). As a result of these factors, U.S. initiatives figure prominently in the history of the IMF. As we have seen, both macroeconomic conditionality in the 1950s and structural conditionality in the 1980s followed an American lead.

The WTO also awards a leading role to the United States, but through a different set of institutional mechanisms. In contrast to the IMF, the GATT and later the WTO follow a “diplomatic” pattern, under which decisions are formulated in rounds of multilateral trade negotiations. In these rounds, decisions are reached by consensus. The logic of consensus has only partly constrained the ability of the U.S. government to impose its will on others. The size of the U.S. economy makes both threats of sanctions and promises of benefits very effective, which U.S. negotiators used to impose liberalization on others while excluding some U.S. industries from the same fate. At the same time, since promises for concessions were often more effective than threat of sanctions, poor countries could gain some compromises from the United States. During the postwar era, developing countries were exempted from some trade-liberalizing obligations and initiatives like the GSP were designed to make at least some of their products internationally competitive. While during the Uruguay Round the U.S. seemed able to ignore any protestations made by developing countries, more recently, middle-income developing countries have shown an unprecedented will, and capacity, to resist U.S. pressure. In preparation to the Doha Round negotiations, the U.S. agreed to relax intellectual property rules over pharmaceutical products, as demanded by Brazil and India, and in the current negotiations it failed to get India and China to liberalize their agricultural sectors (Faiola and Lakshmi 2008).

## Applicability of rules

The current-day application of IMF rules follows the pattern set in the early postwar period, when rules for membership were left relatively loose, but stricter rules were imposed on governments that applied to the IMF for funding. In the post-Bretton Woods era, the principal remaining obligations of IMF membership are to make periodic membership payments, to refrain from currency restrictions except with IMF permission, and to allow the Fund to exert oversight by providing it with economic information. Hence, it is not through membership *per se* that the IMF has diffused neoliberal practices — getting countries to privatize, liberalize trade, reform judiciaries, and so on. Rather, only member states that apply for IMF lending arrangements subject themselves to the IMF's rules for reforming their economies. In

practice, therefore, it is only developing countries that have had to adhere to the IMF's market-liberalizing rules.

In contrast, WTO rules apply to all members—developed and developing alike. While this principle was already inscribed in the 1947 constitutive document, in the early years of GATT both poor and rich countries found good reasons to try to avoid rigid implementation of this principle. Hence, when rich countries negotiated the reduction of non-tariff barriers to trade, they initially constructed them as so-called “plurilateral” agreements, which allowed (mostly poor) countries to opt out. For their part, rich countries often managed to exclude some protectionist industries and waive some domestic laws from the general process of trade liberalization. Recently, however, the application of rules has become more comprehensive. Under the WTO, a “single undertaking” rule made the commitment to all WTO rules mandatory. This affected mainly poor countries, which could no longer excuse themselves from legal obligations too strenuous for their legal systems or stages of economic development. Wealthy countries, on their part, still used diplomatic negotiations to exclude certain sectors, such as agriculture, from trade liberalization. As we will see below, however, the strengthening of the dispute mechanisms has made it difficult even for wealthy countries not to comply with their international obligations.

### Enforcing the rules

The authority of the IMF and WTO to enforce rules comes not only from the material capabilities of the United States and from legitimating ideas but also from having control over access to resources (cf., Selznick 1949; Pfeffer and Salancik 1977; Oliver 1991; DiMaggio and Powell 1983; Useem 1993). These resources may be owned by the international institutions themselves, or these institutions may function as *gatekeepers* to resources owned by other parties (Corra and Willer 2002; Pfeffer and Salancik 1977, p. 45).

In the case of the IMF, both types of resources are involved. First, there are the financial resources that the IMF owns directly, and which can be lent to members suffering from balance-of-payments problems. Since the establishment of the IMF's policy of conditionality in the 1950s, IMF borrowers have been granted access to IMF resources in exchange for following particular economic policies. Second, since the 1980s, the IMF had derived considerable authority from its ability to serve as a *gatekeeper* for financial resources that it does not own—from (mostly U.S.) banks and other private investors, which rely on IMF certification of a country's creditworthiness when making their lending decisions, and from other multilateral lenders, such as the World Bank. Indebted countries must enter into IMF lending arrangements, with all the associated conditions, to negotiate with these other lenders.

However, the IMF's ability to impose rules through the selective channeling of resources depends on external factors over which the IMF has little control. One factor is the availability of alternative capital. When capital dries up, indebted governments need both the IMF's own resources, and for the IMF to provide its seal of approval to private creditors. At times when private capital is more abundant, there is no need to resort to the IMF. Another factor concerns the credibility of the threat to cut off resources. If the IMF becomes more heavily invested in a government (often because the IMF has already invested a large amount in a major bailout), the IMF has been observed to engage in

“defensive lending,” or “lending into arrears,” providing new loans so that the government can pay off old ones in order to preserve its own international image. This makes the strong enforcement of conditions unlikely, and makes borrowers more likely to flout IMF advice (Easterly 2006, pp. 225–31; Gwin and Nelson 1997, p. 11).

The WTO acquires authority through managing a different kind of resource—namely, favorable access to the world market. During the post-war period, many newly-established countries preferred to protect their own market from imports and subsequently were willing to forego better access to foreign markets. During the 1980s and 90s, however, most of those states abandoned their import-substitution policies and succumbed to the neoliberal logic of international competition. Once economies started relying on imports as a major aspect of economic growth, membership in the GATT and later WTO became a necessity, and previously reluctant countries, including China and Russia, have eagerly asked to be included.

Membership in the WTO allows states to benefit from lower tariffs and protection from non-tariff barriers to trade. The Most-Favored-Nation principle means that any concession granted to one country has to be applied to all other member states. Non-members, in contrast, can be discriminated against. States may, and do, enter bilateral and regional agreements, but these provide them with access only to the markets of countries that are signatories of those agreements, and many of these agreements implicitly rely on WTO membership (Chorev 2007b). The WTO, therefore, is an effective gatekeeper to benefits that no other institution can secure, and these benefits are of interest to all members, not only those in financial crisis.

Whereas the IMF and WTO both derive authority from managing members’ access to resources, their respective mechanisms of enforcement are quite different. The IMF applies rules through a quasi-contractual mechanism developed during the early postwar period: the letter of intent. If the borrower fails to adhere to the “performance criteria” included in the letter of intent, the IMF may choose to cut off disbursements. To determine whether or not borrowers are complying with the terms of the agreement, IMF staff engages in monitoring through periodic “reviews” of borrower policies (Babb and Buira 2005). After the introduction of structural reforms in the 1980s and 1990s, however, the Fund found it increasingly difficult to operationalize and monitor borrower compliance. Structural reforms are both harder to measure and harder to implement than macroeconomic reforms. Governments can (and sometimes do) fudge the figures on fiscal deficits and the money supply; yet in principle, adherence to these targets can be easily measured. In contrast, the privatization of a state-owned industry may take years to accomplish, since it needs to be passed by a national legislature. As a consequence of the rise of structural reforms, the Fund increasingly included “benchmarks”—incremental steps toward structural reforms, such as sending legislation to the Parliament—in letters of intent. The legal status of benchmarks—whether or not they should formally be grounds for cutting off loans—is still ambiguous. For the same reason, the Fund now relies more heavily on “prior actions,” in which governments must make specified reforms even *before* signing a letter of intent (Babb and Buira 2005). Apparently because of these complications, the rate of compliance with IMF conditions has declined (Kapur 2005, p. 41). In the era of structural reforms, in short, the enforcement of IMF rules has become quite difficult.

Like the IMF, the WTO was expected to encounter difficulties in enforcing new obligations. The extended jurisdiction now covered economic realms—such as

subsidies, regulations on investment, and intellectual property protection—that required complicated, and at times contentious, governmental action. In contrast to the IMF, however, the WTO relies on member states’ “bilateral monitoring.” If a state believes it suffers injury because of another state’s violation of WTO obligations, it can file a complaint for adjudication by a WTO panel. A panel of trade experts rules on whether or not a violation has occurred and what changes the respondent should make to correct the violation. If the respondent fails to comply with the decision, a panel can allow the complainant(s) in the dispute to impose trade sanctions on the violating member (Maggi 1999). With the exception of overly political or complex issues, the rate of compliance is impressively high (Hudec 1999; Chorev 2005, 2008).

Not surprisingly, wealthy countries have an advantageous position in judicial proceedings (Smith 2004, p. 548; Bown and Hoekman 2005; Busch and Reinhard 2002). They have better access to information and legal expertise and greater administrative capacity. Furthermore, they are better able to afford the costs of litigation, and in cases of noncompliance with a negative decision they have a greater capacity to withstand the consequences of retaliation. They also have the benefit of substantive legal rules that reflect their interests. And yet, WTO dispute settlement procedures also provide a forum for weaker countries to raise their concerns, and make it difficult for rich countries, including the United States, to violate WTO rules (Chorev 2005). In one famous example, Antigua and Barbuda successfully challenged U.S. laws that prohibited Internet gambling and betting. In another case, eight states filed a complaint at the WTO against President Bush’s imposition of high tariffs on steel imports. The WTO panel ruled that these tariffs were illegal, and when complainants threatened with more than \$2 billion in trade sanctions, Bush lifted the tariffs. Legal disputes may have an effect also on the diplomatic negotiations themselves. Agricultural subsidies, for example, are not only at the center of the Doha round negotiations, but have also become a cause for legal disputes. Recently, Brazil has won a case against the United States, with the WTO panelists declaring the U.S. government subsidies to its cotton industry illegal.

In conclusion, the systems of rules that were constructed in the 1940s led to great differences in the functioning of the IMF and the WTO after the 1980s, as summarized in Table 1 below. In the next section, we argue that the different systems of rules had important consequences for the specific type of legitimacy each institution is able to claim, and the homogeneity of the principles they diffuse.

### **Legitimacy and coherence of rules**

Although the IMF and the WTO both refer to hegemonic market-based economic principles for their legitimacy, the differences in their systems of rules lead each to make different specific legitimating claims, with the IMF relying more heavily on technocratic expertise and the WTO more heavily on procedural fairness. Their respective systems of rules also mean that the two institutions are not equally consistent in the norms they espouse, with the IMF being much more ideologically coherent than the WTO.

As we have seen, the IMF’s systems of rule-making and rule-applicability allow for a sharp and durable distinction between members who make the rules and

**Table 1** The different systems of rules characterizing the IMF and the WTO

	IMF	WTO
Rule making	Weighted votes	Diplomatic negotiations
Rule applicability	Borrowers	All member states
Rule enforcement	Weak gate-keeping function	Strong gate-keeping function
	Contractual obligations:	Judicial proceedings:
	- Centralized monitoring to determine compliance	- Bilateral monitoring to determine compliance
	- Sanctions administered by IMF	- Sanctions administered by other members

members who have to follow them. This blatantly hierarchical distinction undermines any possibility for the IMF to have procedural legitimacy—that is to say, the legitimacy provided by procedures that members perceive as just (Rawls 1971). Rather, the Fund relies on technocratic legitimacy—its claim that its policies are based on the best available expert knowledge (Centeno 1994). This makes the appeal to scholarly knowledge a hallmark of IMF policies—the content of IMF conditionality is almost always justified with reference to the ideas of economic experts.

The WTO, in contrast, makes a very different kind of appeal for legitimation. Like the IMF, the GATT/WTO is founded upon economic ideas—particularly the mutual advantage of open trade. However, the WTO does not appeal to technocratic expertise as the major source of legitimacy. The WTO’s rules are not imposed from above by technocrats, but are formulated in negotiations among the participating countries. Consequently, the *procedures* used in the negotiations—and, recently, in the judicial debates—have become the center of the WTO’s claim for legitimacy. The WTO website hence asserts that because “the rules of the WTO system are agreements resulting from negotiations among member states” and because “decisions taken in the WTO are virtually all made by consensus among all members,” then WTO decisions are (by the organization’s own account) “accountable and democratic.”<sup>4</sup>

The IMF and WTO differ not only in how they legitimate the rules they impose, but also in the ideological coherence of those rules. Both the IMF and the WTO are widely considered to be pillars of the neoliberal world order, yet, in practice, the IMF is the more neoliberal of the two institutions. This difference too grows out of the distinct systems of rule-making and rule-applicability. The IMF is controlled by its wealthiest shareholders—and yet its rules do not apply to the inhabitants of these countries. For example, the United States can encourage the Fund to root out “crony capitalism” in Thailand without worrying about the impact on government-business relations at home. This divergence between who makes the rules (the shareholders) and who has to adhere to the rules (the borrowers) means that the countries

<sup>4</sup> [http://www.wto.org/english/thewto\\_e/whatis\\_e/10mis\\_e/10m01\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/10mis_e/10m01_e.htm) (accessed 8/11/2008).

controlling the Fund can afford to impose a relatively “pure” set of ideological principles on other countries without having to worry about domestic opposition.

At the WTO, in contrast, all members are expected to comply. Thus, WTO-sponsored policy reforms affect the interests of politically powerful groups in developed countries—be it investment banks, manufacturing industries, or organized labor. Under these circumstances, the “neoliberalization” of the GATT/WTO was a more protracted, complicated, and contested political process than was the parallel process in the IMF, involving pitched political battles both between wealthy industrialized countries and among competing interests in each country (Evans et al. 1993). Where the interests of politically-influential groups in powerful countries are affected, WTO rules depart from free-market orthodoxy. Consequently, the WTO’s rules constitute a patchwork of universalistic neoliberal principles and particularistic exceptions. For example, the inclusion of intellectual property rights, which have little to do with free trade, was specifically intended to protect the profits of internationally-competitive industries in the U.S. and the EU—not to adhere to abstract economic theory (Stiglitz 2006). Meanwhile, liberalization of agricultural subsidies has fared very poorly in negotiations because of opposition by interest groups in the U.S. and other wealthy countries.

### **Critiquing and resisting neoliberal international institutions**

During the past several years, the escalating crisis of neoliberalism has threatened to render both the IMF and the WTO irrelevant. At the WTO, the crisis has been manifested in the stalling of the Doha round of trade negotiations. The negotiations saw the rise of a relative stable coalition of developing countries (Group of 20), which demands stronger commitments from rich countries on agriculture and other issues. Several ministerial meetings collapsed and delegations left before the agreed deadline. For its part, the IMF has (until recently) faced severe financial difficulties, as developing countries avoided IMF conditions by seeking alternative sources of financing. Both institutions have simultaneously been subject to severe and repeated criticism—not only from Third World political leaders, but also from world-famous economists. At both the IMF and the WTO, these criticisms can be traced to the expansion of institutional jurisdictions and enforcement mechanisms in the 1980s and 1990s. The two institutions are being criticized and resisted because their rules matter a great deal more than did the rules of the postwar IMF and GATT, and because these rules do not seem to have brought the economic growth that they had promised.

Yet in spite of their concurrent dilemmas, the two institutions face very different challenges, rooted in distinct sources of legitimacy and degrees of ideological coherence, which themselves reflect variations in the systems of rule making, enforcement, and applicability. While critiques of the IMF strike at the core of its claim to legitimacy, this is not the case with the WTO. And whereas IMF members tend to resist by exiting in protest, WTO members try to make a change from within the system.

As we have seen, the IMF has little or no procedural legitimacy, and therefore relies almost entirely on its claims to neutral technocratic expertise. The Fund’s technocratic legitimacy has been damaged by the stagnant economic performance of

many developing countries over the past 20 years, in spite of numerous IMF interventions. The massive 2001 devaluation of the Argentine peso was a particularly devastating event, since Argentina was widely perceived as having followed most of the IMF's advice. The IMF also drew major criticism from experts around the world for its involvement in the Asian Financial Crisis of 1997–98—not only for ostensibly misdiagnosing the nature of the problem, but also for imposing a host of intrusive lending conditions, some of which clearly responded to the demands of special economic interests in the United States (Blustein 2001; Stiglitz 2002). Nobel Prize-winning economist Joseph Stiglitz famously dismissed the competence of IMF economists, referring to them as “third-rank students from first-rate universities” (Stiglitz 2000, p. 57).

WTO critics, in contrast, rarely challenge the economic principles behind the drive to trade liberalization. Instead, the WTO is often criticized for its hypocrisy, that is, its tendency to cater to the interests of protectionist interest groups in developed countries, while preaching the doctrine of “free trade” to others (Stiglitz 2006). One of the main disputes in the current round of trade negotiations revolves around agricultural protection. On the one hand, the United States and the European Union cannot agree on reducing their high tariffs on agricultural imports and on lowering their generous subsidies to their farmers and agribusiness. On the other hand, the U.S. objects to a “special safeguard mechanism,” designed to protect farmers in the developing world against temporary surges in cut-price imports of cotton and rice (Elliott 2008).

However, ideological consistency is not at the heart of the WTO's claim to legitimacy. Therefore it is less damaging to the WTO than the criticism waged against the IMF. Instead, the WTO relies on its claim to *procedural* fairness. And although there have been serious complaints about the WTO's under-representation of the interests of poor countries (Jawara and Kwa 2003; Wallach et al. 2004), the WTO's formally equal system of rules makes it more difficult to criticize than the IMF on procedural grounds.

The two institutions' systems of rules also provide very different opportunities for weaker members to resist them. The economist Albert Hirschman (1970) famously observed that organizations have different ways of accommodating the dissatisfaction of members, citizens, or clients: whereas some institutional arrangements favor “exit” (e.g., taking your business elsewhere), others favor the use of “voice” (e.g., voting for a new government). In keeping with this observation, whereas IMF governance provides incentive for “exit,” the WTO provides incentive for “voice.”

The IMF's shareholder-dominated rule making system provides little means for developing countries to represent their interests. Instead, many middle-income developing-country governments recently “exited” the IMF's rules—not by quitting the IMF (since rules for membership are relatively loose), but by not applying to the Fund for resources, relying instead on their own stockpiles of foreign exchange reserves and private capital flows (Buirra 2005; Bello and Guttal 2005). Under the Chiang Mai Initiative, Asian governments pooled the resources of 13 of their central banks, as an alternative to the IMF. As Argentine President Nestor Kirchner remarked in 2005, “There is life after the IMF and it is a very good life” (Lerrick 2007). These national decisions pared down the IMF's list of customers to include only extremely poor countries that had no choice but to borrow from the Fund,

causing the IMF's lending portfolio to decline from \$100 billion in 2003 to \$13 billion in 2007 (Lerrick 2007).

In contrast, WTO members do not have a viable "exit" option and have reason to attempt to further their interests through exercising their "voice," that is to say, through working within the system. One reason for this is that the WTO is a more effective gatekeeper than the IMF: it grants favorable access to international markets—a resource that cannot be provided by any other organization. Non-members, even if they find ways to participate in the global market by way of bilateral or regional trade agreements, are still vulnerable to discriminatory measures.

A second incentive for "voice" is that, in contrast to the IMF, the WTO's internal governance system allows members to potentially influence the making and application of rules through rounds of trade negotiations and the dispute resolution mechanism. This applies even to developing countries, the members with the least influence in the overall shape of the organization. As we have seen, the need to arrive to consensus provides developing countries some bargaining leverage in diplomatic negotiations. This has become particularly pronounced at the Doha Round, with middle-income countries, including Brazil, South Africa, India and China, more explicitly insisting on protecting their economic interests. This may enhance the perception that developing countries do not need to demand a drastic reform of the WTO, but rather only a reversal of the substantive agreements. The ability of a coalition of developing countries to disrupt the Doha Round negotiations may be, somewhat counter-intuitively, a positive sign for the WTO rather than a negative one, as it suggests that the WTO may have the capacity to incorporate and respond to transformations in the economic positions and political interests of member states. In contrast, for the IMF to address its critics, it is obvious to all observers that a fundamental *institutional* renovation is required, which would be much more difficult for the states benefiting from the current arrangements to accept.

Recognizing the severity of its legitimacy problems, the Fund has recently launched several internal reforms. One is the elimination of structural "performance criteria" (the formal conditions that, when violated, lead automatically to the suspension of a loan). Another is the introduction of a new lending facility, the Flexible Credit Line, which offers a condition-free line of credit to countries that are already pursuing IMF-approved policies. Yet using policies as a precondition for loan eligibility is merely another vehicle for conditionality (similar to the "prior action"), and structural conditions can still be imposed through either this vehicle, or through the Fund's less formal "structural benchmarks." None of the proposed reforms, moreover, address the Fund's austere macroeconomic conditions that are famous for prioritizing low inflation over economic growth, and that have remained a central component of recent loans (Muchhala 2009).

Most importantly, such internal organizational reforms cannot address the perceived unfairness of the IMF's governance structure, which gives decision-making power to the wealthy countries that are not subjected to the IMF's rules. Only the powerful governments that control the IMF could bring such a change about, and thus far they have been reluctant to do so. A long-awaited reform in the Fund's governing structure implemented in 2006 left the U.S. with its traditional veto over major organizational changes and only slightly reduced the overall share controlled by wealthy industrialized countries (Weisbrot et al. 2009, pp. 20–1). As

this article goes to press, the IMF's powerful members remain deadlocked over governance reform; whereas the United States wants to preserve its own voting share but increase the share going to emerging market countries, European governments have thus far refused to agree to any reform that comes at their expense (Duncan 2009).

## Conclusion

Over the past several decades, international institutions have played an active and visible role in constructing a neoliberal global economy. The IMF, the GATT, and other institutions of the postwar international order survived the crisis of the 1970s—but will they survive the current one? We have shown that as a consequence of distinct systems for making, applying, and enforcing rules, the IMF and WTO offer distinct levels of policy coherence and make different claims to legitimation. As a result, they also encounter different kinds of criticism and different types of political resistance. There are two main conclusions that we draw from this study.

First, this study suggests that (independently of whether the current U.S.-led hegemonic world order survives, transforms, or is replaced with a new hegemony) the WTO is more likely than the IMF to play an ongoing role in international economic governance. As a seasoned, technocratic organization that has an intellectual explanation for each of its policies, the IMF poses a stark contrast to the raucous negotiations and inconsistent rules of the WTO. And yet, paradoxically, the WTO appears to be the more resilient of the two institutions. This is partly because it is a better gatekeeper and more effective enforcer than the IMF, and its rules are hence more difficult to evade. Yet, it is also its formally equal representation of interests that helps keep the WTO in business by providing a positive incentive to stay within the system. This does not place the WTO above criticism; after all, sociologists have long observed that systems of formally equal representation are easily used by the wealthy and powerful for their own benefit (*see* Weber 1978, pp. 812–13). Yet it allows the WTO an opportunity to successfully deflect its critics that the IMF is lacking.

Second, the evolution of the IMF and WTO provides interesting clues as to the possible future shape of global economic governance—assuming that the current wave of globalization does not collapse under its own weight, as did the wave of the early 20th century (James 2001). Of the various institutional manifestations that combine coercion and consent, our comparison suggests that flexible, negotiable systems of rules are more likely to endure than rigid ones; and formally equal rules are more resilient than formally unequal ones. Governance through managing resource dependence is likely to turn into an increasingly common mechanism for the imposition of global economic rules. Resource management is a likely form of global governance because it is a *latent* form of coercion—one that seems, at least on the surface, to be compatible with the modern norm of formal equality.

Managing the resources of third parties, and using third parties to monitor and enforce compliance, as the WTO does, appears to be the most effective tactic of all. Much of global rule enforcement through gate-keeping occurs “under the radar,” through institutions that are far less visible (and hence far less accountable) than

either the IMF or the WTO, such as international bond rating agencies or the International Accounting Standards Board (Mosley 2002; Carin et al. 2006; Braithwaite and Drahos 2000). Yet gate-keeping can also be a tool for social movements: for example, non-governmental organizations have started to “certify” whether multinational firms adhere to fair labor and fair trade standards, thus harnessing the power of third parties (consumers) to punish firms that do not adhere to their standards (Gereffi et al. 2001). It is even possible that current trends could lay the foundation for a more substantively equal system of global economic governance.

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