Bessma Momani

Another seat at the board

Russia's IMF executive director

Created in 1944 as part of the postwar strategy to prevent another great depression, the International Monetary Fund (IMF) was ideally meant to coordinate financing and technical advice to member countries experiencing economic imbalances. Today, however, the IMF is frequently criticized for its failure to be accountable and legitimate in the eyes of its own members. Recently, many prominent policymakers across the world have argued that the IMF's legitimacy crisis can only be resolved by reallocating the 24 seats on its executive board in a way that gives greater voice to countries that are seen to be underrepresented. Specific proposals involve decreasing and consolidating European representation and making the executive directors of Russia, Saudi Arabia, and China—which do not represent any other members and therefore have sole constituency-free seats—absorb other fund members in their constituencies. Ideally, this could free up seats at the

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executive board and allow quota increases for those deemed underrepresented or unheard, namely emerging market economies and less developed countries.[1]

While policymakers have been discussing how to recompose the executive board, little academic attention has been devoted to this important organ of international monetary decision-making. Moreover, we have a rich political science literature on the study of international organizations that has not been applied to analyze how seats at the IMF executive board might be acquired. Three theoretical schools studying decision-making in international organizations are led by bureaucratic organization theories, realist theories, and, bridging the two, delegation theories. Are IMF executive board seats determined by bureaucratic considerations, as organizational theorists would argue, or by strategic power politics, as realists would contend, or by a combination of external constraints and internal accommodation, as delegation theorists would purport? The theoretical debate on this issue is lively, with hypothesizing taking place on every front.

Bureaucratic organization theorists, inspired by constructivism, have argued that IMF staff have intellectual dominance in the institution. IMF staff play a key role in shaping IMF policies, programs, and ultimately decision-making. The fusion of constructivism and organizational theories, spearheaded by the multi-case study by Barnett and Finnemore, has given stronger ontological and purposive value to international organizations. International organizations are viewed as "social contexts" that have their own culture, norms, and idiosyncrasies, all of which need to be considered when trying to explain IMF decision-making. There are "unintended consequences" of IMF staff behaviour that produce mission creep or "dysfunctional behaviour"—policies and decisions that are not necessarily sanctioned by the IMF executive board. The IMF staff can often push forward their own agendas because they have respected economic expertise. They are in effect "in authority" because the executive board has entrusted them with key functions; the staff are also "an authority" because they create economic knowledge and ideas to which member countries are receptive.[2]

1 For a recent review of IMF reform debates, see Eric Helleiner and Bessma Momani, *Slipping into Obscurity: Crisis and Reform at the IMF* (Waterloo: Centre for International Governance and Innovation, 2007); and Edwin Truman, *A Strategy for IMF Reform* (Washington, DC: Institute for International Economics, 2006).
2 See Michael Barnett and Martha Finnemore, *Rules for the World: International Organizations in Global Politics* (Ithaca: Cornell University Press, 2004).

Building on the importance constructivists attach to the role of norms and shared beliefs, this bureaucratic approach focuses on the IMF staff's shared ideas or norm convergence. Bureaucratic organization theorists would assume that the IMF staff, deemed technocratic, would have a strong sway in internal IMF decision-making and would resist attempts to politicize the organization; ideational forces would outweigh material ones. This reinforces the IMF's claim that its day-to-day functions are carried out by the technically oriented staff, composed mainly of internationally recruited macroeconomists that are separated from the potentially politicized—and relatively small—executive board. In one study, the author found the IMF staff resisting and usurping both the managing director and the executive board's attempts to limit the staff's scope of conditionality. Instead of reforming IMF guidelines, the IMF staff further entrenched and expanded the staff's scope of conditionality.[3]

Realists look at the executive board where balance of power is reflected in quotas and shares and argue that ultimately the board can trump the IMF staff. While the fund architects may have argued that in order to remain effective, the size of the board was to remain small, realists would add cynically that a small board could ensure that powerful states could then easily control the board. Realists suggest that IMF decision-making is actually a reflection of powerful states' interests, as the executive board reflects the skewed distribution of power in the international economic system. Realists would argue that powerful states use international organizations as instruments to achieve their foreign policy objectives by ensuring control over an organization's decision-making process and policy outcomes. In this realist take, the IMF has no independent decision-making effect on its member states and reflects the will of the strongest members, most notably the United States and its private financial community.

Realists most often find the United States using the IMF as an instrument of its foreign policy. A number of studies, for example, have used UN voting records to show that the United States determines IMF loan approvals when it perceives its global alliances are under threat, again through its dominant role at the executive board. In a specific study of IMF-

3 Bessma Momani, "Limits of streamlining fund conditionality: IMF's organizational culture," *Journal of International Relations & Development* 8, no. 2 (June 2005). For IMF arguments about the role of the staff and executive board, see Joseph Gold, "Political considerations are prohibited by articles of agreement when the fund considers requests for use of resources," *IMF Survey*, Washington, DC, 23 May 1983, 148.

Egyptian negotiations, the author has found explicit evidence of the United States usurping IMF staff loan conditionality to prop up the pro-western Mubarak regime.[4]

Others have built on realist assumptions to find that the IMF also designs and approves loans when creditor states and private commercial interests are highly exposed to debtor states. The United States directly intervenes in IMF decision-making when states are heavily indebted to American banks and when it is concerned over "bailing-out" states experiencing financial crisis.[5] These realist studies suggest that the United States delegates its foreign policy preferences through its executive director who in turn influences IMF decision-making, including the policy prescribed by the IMF staff.

Delegation theorists use principal/agent models and purport to build theoretical bridges between bureaucratic organizational theorists and realists. They argue that powerful principals delegate authority to international organizations that give staff some autonomy. Powerful countries may influence the IMF staff, but the IMF staff can also create their "zone of discretion" and insulate their technocratic work from their intrusive principals. In other words, the IMF staff's intellectual dominance in the institution creates a powerful shield against powerful board members' attempts to politicize the organization. Ngaire Woods has similarly argued that although powerful members indeed have political preferences that create an "outer structural constraint" on the IMF staff, IMF staff also have their own professional standards and templates that must be squared against political

4 See Stone Thacker, "The high politics of IMF lending," *World Politics* 52, no. 1 (October 1999): 38-75; Miles Kahler, "The United States and the international monetary: Declining influence or declining interest?" in Margaret P. Karns and Karen A. Mingot, eds., *The United States and Multilateral Institutions: Patterns of Changing Instrumentality and Influence* (London: Routledge, 1990). Also see Bessma Momani, *IMF-Egyptian Debt Negotiations* (Cairo: American University of Cairo Press, 2006), and Idem, "American politicization of the International Monetary Fund," *Review of International Political Economy* 11, no. 5 (December 2004).

5 Erica Gould, "Money talks: Supplementary financiers and international monetary IMF conditionality," *International Organization* 57, no. 3 (2003): 551-86; Thomas Oatley and Jason Yackee, "American interests and IMF lending," *International Politics* 41, no. 3 (2004): 415-29; Richard Leaver and Leonard Seabrooke, "Can the IMF be reformed?" in Julie De Los Reyes and Walen Bello, eds., *Global Finance* (London: Zed Press), 25-35.

pressure. Delegation theorists suggest that technical and scientific organizations can better resist external political pressure by nesting their work in professional codes of conduct. International organizations and their staff need to be given this important "zone of discretion" to create an aura of neutrality and ensure policy credibility. Principals prefer entrusting authority to a technical, bureaucratic, and hierarchical organization because policy outcomes are arguably more predictable. Principals will have some oversight mechanism, however, to ensure that the staff do not overstep their mandate. In other words, delegation is loaned to the IMF staff and can be usurped by the executive board through drastic measures.[6]

In essence, bureaucratic organization theorists see the executive board as less powerful than the technical IMF staff. Realists view the board as a reflection of the distribution of international power and assume real decision-making is taking place outside the IMF. Delegation theorists, meanwhile, view the staff as the key actor unless trumped by the board. Given the organizational culture of the institution and the political stakes involved in having a seat at the executive board, I see a conundrum. If it is the IMF economist staff, functioning away from the executive board, that collates and verifies members' economic information, assesses members' economic weight, and ultimately calculates quota allocations using an established formula, should not the process of determining seat and quota allocations be a technical and reproducible process? At the same time, if the allocation of quotas and resulting executive board seat allocation determines the political and economic direction of the very powerful IMF—an agent of global economic liberalization—should not the external pressure to have a favourable political outcome for its powerful state members lead to intense politicization of the process? How do external political pressures and the technocratic fund culture interact? The case of Russia is used to help reveal

6 Darren G. Hawkins, "States, international organizations, and principal-agent theory," in Darren G. Hawkins, David A. Lake, Daniel L. Nielson, and Michael J. Tierney, eds., *Delegation and Agency in International Organizations* (Cambridge: Cambridge University Press, 2006); Ngaire Woods, *The Globalizers* (Ithaca: Cornell University Press, 2006). For an argument on bridge-building efforts, see Daniel L. Nielson, Michael J. Tierney, and Catherine Weaver, "Bridging the rationalist-constructivist divide: Re-engineering the culture of the World Bank," *Journal of International Relations and Development* 9, no. 2 (2006): 107-39. For an application of delegation theory to IMF surveillance, see Bessma Momani, "IMF surveillance and America's Turkish delight," *Perspectives: The Central European Review of International Affairs* 27 (winter 2007).

some of the nuances at play. Specifically, the internal process used by the IMF to get Russia a seat at the board will be examined, an addition to the nuanced bureaucratic understanding of how this powerful organization behaves and operates under potential external political and financial pressure.

THE RETURN OF RUSSIA TO THE IMF

After the demise of the Soviet Union, Russia applied to join the IMF and succeeded in getting both membership and a generous fund quota allocation that allowed it to hold a sole constituency-free seat at the executive board—in addition to China and Saudi Arabia. Russia was now somewhat in the league of the five sole appointed seats at the executive board that are reserved for the most powerful world economies—held today by the United States, Japan, Germany, France, and the United Kingdom. According to one calculation, Russia, which has a relatively strong economy and low debt service ratio, still remains overrepresented in its actual or current allocation of 3.27 percent of total quotas to its calculated (or using the quantitative Bretton Woods formula) quota share of 1.01 percent at the executive board. In other words, when the quantitative formulas are actually run—even using the best-case scenarios of the currently prosperous Russian economy—Russia's quota weight on the executive board is still 52.3 percent higher than it should be. To put this into perspective, note that the US, Japan, Germany, the UK, and other G7 states are underrepresented. Moreover, China is underrepresented by 55.5 percent and Singapore by 62.5 percent. After the demise of the Soviet Union, the re-emerging Russian state was hardly a beacon of economic strength. How did Russia manage to get this sole seat at the IMF executive board? Was it by virtue of its generous quota allocation or were political factors at play? Was it important, as the fund's chief historian recalled, that Russia reminded the IMF at the time that fund architects had determined that the Soviet Union should get the third greatest share of fund quota allocation and one of the five appointed seats at the executive board?[7]

7 See James Boughton, "Transcript of an IMF economic forum: Reforming the IMF: Governance and the executive board," Washington, D.C., 4 November 2005, www.internationalmonetaryfund.org. Quota values based on Edwin Truman, "Rearranging IMF chairs and shares: The sine qua non of IMF reform," Paper presented at the Institute for International Economics conference on IMF reform, 23 September 2006, 19.

Since the end of the Cold War, Russia's economic stability has been labelled "too nuclear to fail." Russia's large arsenal of nuclear weapons meant the world needed to cater to Russian financial needs to ensure that Russia did not become politically and socially unstable. This rationale would be used to justify easing the terms of Russia's future IMF loans. Perhaps the same could be said about Russia's membership negotiations that determined its place at the board and its quota. As Johann Prader, Austrian alternate executive director, commented:

> Russia…has been treated as a special case from the very beginning. I must say that most of the smaller European constituencies were quite skeptical about this approach and frequently criticized the fund's policies toward Russia in the executive board. At the same time, it was always clear that Europe has enormous financial, political, and security interests in Russia's stability and welfare. For these reasons, European Directors' criticisms could not be more forceful than those that would be voiced by a so-called loyal opposition.[8]

Similarly, the fund managing director, Michel Camdessus, commented on how Russia tried, yet in his view failed, to use its international political stature to persuade fund staff in its first few months of membership at the fund. At an executive board meeting on Russia, Camdessus remarked,

> one should remember that Russia has long been accustomed to a prominent place in world affairs, and there has been no shortage of advice to the authorities that Russia should receive special treatment from the fund…It was clear to the staff and myself that, for serious negotiation to start, it was necessary for our counterparts to understand well our position that strong measures were needed and that an agreement with the fund would not otherwise be possible. Of course there was criticism that we were taking an enormous risk by not altering our traditional principles.[9]

8 Johann Prader, "The IMF's role in a changing world and changing markets," Austrian alternate executive director of the International Monetary Fund, luncheon speech given at the International Bankers Forum Luxembourg, 13 October 1999, www.bcl.lu.

9 IMF minutes, executive board meeting 92/85, Washington, DC, 8 July 1992, 3.

The special case of Russia was felt throughout the IMF, particularly in the technically oriented area departments. The question of how the fund dealt with the once-great empire during its early phase of negotiating its quota and place at the board is one worthy of study.

To delve into how the special case for Russia was made in this early phase, internal IMF documents on Russia released upon request from the IMF archives were examined. These documents included IMF staff studies on Russia, executive board minutes, fund managing director statements and letters to the executive board, as well as executive board documents on quota reallocation. Other primary documents were acquired through the US freedom of information act request that included cables sent from the US embassy in Moscow to the US State Department and Treasury Department, and through visiting the George H.W. Bush archives to review US presidential papers and presidential memos and notes. Soviet and Russian newspapers of the time period were further analyzed. Finally, the personal interviews were conducted in Washington, DC, with present and former senior IMF staff, executive directors, and US officials all intimately involved in the Russian negotiations to join the IMF.

FUND EXECUTIVE BOARD SEATS AND QUOTA ALLOCATIONS

The manner in which IMF executive board seat allocations are decided is greatly dependent on the calculation of members' quotas. Technically, quotas serve three broad functions: to set the amount of funds that members can borrow, to establish a member's voting power on the executive board, and to determine how much a member must deposit into the fund's liquidity. Technical and quantitative studies of quota reallocation, primarily done by economists, have dominated the current literature on proposing ways to reform the IMF. Practically, however, assessment of members' quotas is vital to determining relative power, decision-making authority, say in the future of fund activities and behaviour, and, perhaps least noted, "national prestige."

The sentiment has often been that despite the technical and quantitative methodology used in determining members' quotas, traditionally allocating quotas involved making some international political judgments. This was the case from the very inception of the IMF at Bretton Woods, New Hampshire. US Treasury official Raymond Mikesell recalled how the Bretton Woods' quota formula was devised. He said, "I had anticipated this request and gave a rambling 20-minute seminar on the factors taken in calculating the quotas, but I did not reveal the formula. I tried to make the process appear as scientific as possible, but the delegates were intelligent enough to know that the process was more political than scientific."[10] It is important to note that the early design of quota allocation was contrived to ensure that the major political contenders, rather than the economic ones, were represented at the executive board. The original 1945 quota distribution ensured that of 8,809 (all figures in US million dollars) total quotas, the United States had the highest quota allocation, with post-World War II powers following suit. The quotas of the big four post-World War II powers were predetermined in the United States, before the actual Bretton Woods conference. The US' allocated quota was 2,750 or 31 percent of total quotas, followed by: UK 1,300 or 14 percent; Soviet Union 1,200 or 13 percent; China 550 or 6 percent; France 450 or 5 percent; and India 400 or 4.5 percent.[11] The original Bretton Woods quota allocations ensured that the US, UK, USSR, Republic of China, and France would have sole appointed seats at the executive board. However, as history would have it, the Soviet Union pulled away from the IMF, leaving a sole appointed seat for India to occupy until unseated by Japan in the 1970 fifth general quota review.

The IMF mandates that the top five quota holders appoint five executive board seats. These appointed seats are "on-loan" and reviewed every five years with general quota reviews. These quota reviews give members a chance to make their case for enhanced quotas and to potentially unseat other executive directors (EDs). Changing quotas, however, is extremely difficult to negotiate politically, regardless of the economic merits for change. Japan experienced this until it finally got its seat at the board in 1970. There would be further changes to the top five sole, appointed seats. Germany unseated China in 1960 and Japan unseated India in 1970. Moreover, the number of seats at the executive board grew from the originally mandated 12 to 20. Fund articles of agreement were amended to allow 15 elected EDs in addition to the constant five appointed EDs. In the early 1980s, two additional sole constituency-free seats were added to the table headed by China and Saudi Arabia. By the early 1990s, Russia had renegotiated its membership into the IMF, its share of fund quota, and its sole constituency-free seat at the executive board. At the same time, Switzerland headed an elected seat

10 Raymond Mikesell, "The Bretton Woods debates: A memoir," *Essays in International Finance Series* 192, Princeton University, 1994, 35-36.

11 Other mentionables: Canada, 400; Australia, 200; Netherlands 275; and Poland, 125. All figures found in *Articles of Agreement*, Washington, DC, IMF, 1992, 60.

at the board, taking in many of the new members that joined the fund in the early 1990s. The executive board today is then composed of 24 executive directors: five appointed, 16 elected constituencies, and three sole constituency-free seats. The articles of agreement, however, has not been amended to make the 24 executive board seats a permanent feature of the fund, making the last four added seats (China, Saudi Arabia, Russia, and Switzerland) in excess of the 20 mandated by the current articles of agreement.

The IMF claims that the executive board does not take votes; instead, it uses "consensual" decision-making that takes all of the executive board's views into account. That said, most fund decisions require an 85 percent "special majority." This would give only the United States, by design, de facto veto power. The number of seats at the executive board increased to make room for new members, but the "special majority" threshold that gave the United States veto power was to be implicitly preserved. Executive directors representing constituencies pooled their quotas and voting weight to have influence at the board. Over the years, numerous shifting of members to and from constituencies that elected executive directors ensued.[12]

Manoeuvring a member's strength at the board, whether seeking or maintaining one of the top five appointed seats or adding weight to a constituency, involved securing a favourable quota allocation. Quota allocation has been, to say the very least, a complex, technical subject greatly overlooked in academic and policy literature. As many executive board and senior staff members stated in personal interviews, "few people really know how the technical formulas really work." The IMF officially claims that quota allocations are based on members' relative share or contribution to the world economy.[13] The original Bretton Woods formula used to calculate relative economic strength took into consideration several variables: trade, foreign exchange reserves, domestic income, and export fluctuations.

12 This number increased from the 80 percent threshold as the US' share of quota decreased over time, to today's 17 percent of total quota that still gives the United States the only veto power. See Joseph Gold, *Voting Majorities in the Fund* (Washington, DC: IMF, 1977). For an excellent account of changes at the EB, see Ngaire Woods and Domenico Lombardi, "Uneven patterns of governance: How developing countries are represented in the IMF," *Review of International Political Economy* (August 2006). Woods and Lombardi have also noted that Russia has remained inactive in cross-coalition groups built at the executive board, 507.

13 "A factsheet: IMF quotas," IMF, Washington, DC, September 2005, www.imf.org; "Report to the IMF executive board of the quota formula review group," IMF, Washington, DC, 28 April 2000.

Throughout the history of the fund, changes to quota allocations have been made to make room for incoming members, to reflect changes to members' relative economic position in the world economy, and to reflect new interpretations and changing weights of economic variables used in the original Bretton Woods formula of quota allocation.[14] The fund usually re-evaluates its overall quota allocation every five years, and such meetings and reviews generate significant debate and politicking among members. Because a member's power and strength is based on its relative share of the fund's quota, attempts to increase the fund's liquidity position through increasing the overall quotas can result in some members, particularly poor developing countries, losing their share of the quotas and hence voting weight in the institution. As a former executive director once noted, "the IMF falls from its normally very high analytical standards...when the case is made for higher quotas."[15] All members want to ensure that their stature in the organization is strengthened, if not at minimum maintained, when general quota reviews are done.

The ninth general review of fund quotas was to be initiated in March 1988, but was delayed and postponed several times because of failed agreement on both the amount of quota increase needed and the reallocation of existing fund quotas. By most accounts, the ninth general review was particularly heated as a number of incoming members were being admitted into the fund and as G7 members were internally jockeying for power in the executive board, most notably Japan, France, and the United Kingdom. Many quota increase reviews occasion politicization and subjectivity: the ninth general review was delayed repeatedly by internal disputes.[16]

Finally, in May 1990, fund members agreed that the terms of the ninth general review were to increase the total fund quotas by 50 percent, from

14 Leo Van Houtven, "Governance of the IMF: Decision making, institutional oversight, transparency, and accountability," pamphlet series no. 53, IMF, Washington, DC, 2002, 5; " A factsheet, IMF quotas."

15 Huw Evans, "The Bretton Woods institutions: A view from the boards," working paper no. 32, London, Centre for Economic Policy Research, July 1997, 10; quoted in James Boughton's *Silent Revolution: The International Monetary Fund, 1979-1989* (Washington DC: IMF, 2001), 857.

16 "Selected decisions and selected documents of the International Monetary Fund, 33rd issue," IMF, Washington, DC, 1998, 638-61. As well, see Boughton, *Silent revolution*; Yoshiko Kojo, "Burden-sharing under US leadership: The case of quota increases of the IMF since the 1970s," in H. Bienen, ed., *Power, Economics and Security* (Boulder, CO: Westview Press, 1992): 286-308.

SDR 90.1 billion to SDR 135.2 billion, used primarily to raise members' quotas on an all-around equiproportional basis (60 percent) and to readjust select members' quotas to better reflect their changed position in the world economy. The IMF board of governors agreed that increasing fund liquidity and changing quota allocations were needed to respond to the economic crisis ensuing from the 1990-91 Persian Gulf War, the admittance of new IMF members (Bulgaria, Namibia, Mongolia, and then Czechoslovakia), new IMF applicants (Switzerland and Albania), and, most importantly, the realization that eastern Europe, a reunited Germany, and then the Soviet Union would need enhanced access to IMF resources in the coming years.

It was very important for the Russians to get their quota share decided before the ninth general review was set to take effect, because they knew the review would diminish their quota share and they desperately wanted access to financing. The Russian's future executive director, Konstantin Kagalovsky, laboured to get the review done under the eighth review, a door that would be closed by the April spring meetings. The Russian quota would have decreased because the eighth review used 1968-80 data in quota calculations and the ninth review used 1973-85 data. The Russians knew that their economy took a downward dip in the later time period and getting included in the eighth review would have resulted in more favourable terms. The ninth general review would officially take effect 11 November 1992, the final day allowed for members to contribute money for their increased quota and the date on which the articles of agreement would be amended to reflect quota allocation changes.[17]

The Russians' IMF membership application—a letter from Boris Yeltsin, personally delivered from the Russian embassy in Washington to the managing director Michel Camdessus on 3 January 1992—was distributed to the fund's executive directors and department heads, and the IMF staff from both the treasury department and the European II department (former IMF area department in charge of eastern European states) began the important task of assessing and evaluating Russia's prospective share of fund quotas and its stand-alone economy. The status of Russia's place at the executive board was discussed in the crucial first months of its application to the fund, with the significant involvement of the G7 executive directors.

17 IMF, "Selected decisions and selected documents," 638-661. One of the final, yet key, members still holding out fund payment was the United States, because congress remained reluctant to appropriate money to the IMF in a critical election year that saw domestic concerns over mounting deficits.

POLITICKING FOR RUSSIA'S SEAT ON THE EXECUTIVE BOARD

The G7 was in a stir over what to do to help Russia and how "not to lose Russia" at its critical juncture of transition from the Soviet Union. The G7 finance ministers, G7 sherpas, and the executive directors from the G7 built the case for special treatment of Russia in its membership negotiations. Beginning formally with the G7 finance ministers' meeting on 25 January in New York, support for Russia's membership into the fund was endorsed by the G7. Throughout early February, G7 sherpas continued to work on the terms of Russia and the other ex-Soviet republics' applications to join the IMF. At the top of their agenda was the argument for Russia to have a seat on the executive board.[18]

The G7 felt that Russia's IMF membership and place on the board would relieve some of the burden for bilateral aid and was the right thing to do for the former superpower. As John Major noted in his biography,

> Russia needed—and received—a great deal of financial help, although talk of a "Marshall Plan" was unrealistic and came to nothing. But her role as a debtor nation was uncomfortable for a superpower and I believed she needed to be brought into the Western process of decision-making. To disregard Russia when she was weak might not be forgotten when she was strong once again.[19]

In Washington, Russia was mounting a case for substantial foreign aid and had the ears of US policymakers. America's ambassador to Russia, Robert Strauss, lobbying for US support for Russia at the fund and greater bilateral aid commitments, was quoted in the *New York Times*: "This ain't bean bags we are playing. These are big time issues. This is life or death. This is the future of nations." In President Bush's points prepared for delivery to the US congress on his proposed freedom support act bill for Russian aid, released through the freedom of information act, he noted, "I will do everything I can to avoid new budgetary expenditure by relying on international financial institutions and by marshaling existing resources. In this

18 Confirmed in a personal interview with a former executive director; see also Rich Miller, "G7 close to deal to get Russia into IMF," Reuters News, 13 February 1992.
19 John Major, *John Major: The Autobiography* (New York: HarperCollins Publishers, 1999), 501.

regards, I must emphasize again how important IMF [quota] replenishment is to my efforts to keep the budgetary impact as low as possible."[20]

The US political climate was ripe for lobbying for Russian support, but on the heels of US financial commitments to the 1991 Persian Gulf War, Bush remained concerned about his re-election and knew that the US public wanted greater domestic spending instead of continued spending on foreign policy-related issues. The Russian aid bill argued for congressional approval of an increase in the US share of IMF contributions and quotas that would enhance the fund's liquidity and that, in turn, allowed enhanced funding for Russia. The idea running through G7 capitals, particularly in Washington, was that aiding Russia would be an investment in ensuring long-term global stability. The G7 states intended to implement this by channelling financial support through the IMF—de facto burden sharing foreign aid to Russia—and giving Russia a greater political stake in the fund.[21]

Russia was also politicking to get its executive board seat through persuading the powerful G7 members. In cables released through the freedom of information act, Russia's deputy foreign minister and international organizations administration chief, Sergey Lavrov, met with US senators John Kerry and Bill Bradley in Moscow's US embassy. Lavrov noted that Russia had "made much progress and now were [sic] left to resolve such issues as the composition of the IMF Board of Directors and the number of seats to be allocated to participating states." Lavrov asked whether Russia should seek a "China formula" and argue for a seat on the executive board on account of its political weight in the international community, to which Bradley replied that "The People's Republic is still a communist state. Russia is not; Moscow can get a better deal and should aim for that outcome...[besides]...the China seat was a mistake; it should not have gotten one."[22] Russia was mounting international support for its sole constituency-free executive board seat.

20 See Bush presidential record, national security council memorandum, William Sittmann to Phillip Brady, "Points to be made for bipartisan congressional leadership meeting on 1 April 1992," ID#21365, 31 March 1992, 4.
21 Confirmed in a personal interview with a former executive director; also see Miller, "G7 close to deal."
22 Both quotes are from the deciphered cable from the US mission in Moscow. See "From American embassy Moscow to secretary of state Washington DC," Moscow, US embassy, declassified cable, 15 April 1992, 15. Senators Kerry and Bradley were in Moscow on the heels of the president's announcement and before the act was tabled in June in the senate.

At the fund, the idea of Russia having a seat on the executive board soon became an "assumed reality" as G7 support for the idea intensified. Russia was then offered a seat very early in the membership negotiations process. It was, according to one executive director, "unthinkable" then that Russia would not get a seat. Moreover, according to many on the executive board, Russia getting a seat on the board made sense because China already had a sole seat as well. Russia was a nuclear power, had geopolitical clout, and clearly could make a case that its presence on the board ensured a representative and most important, a universal IMF. The global good of having Russia in the IMF allowed many on the board and in the managing director's office to overlook the Russians' relative economic weakness, suggesting that Russia should be given the benefit of the doubt and that perhaps it would rise again as an economic power to be reckoned with.

After it was informally agreed that Russia would hold an executive board seat, management and other executive directors briefly toyed with the idea of having the Russians take on the ex-Soviet republics as part of their constituency. There was no other natural constituency than the ex-Soviet republics that Russia could have had under its chairmanship. However, most of the former republics did not want to be a part of the Russian constituency; they wanted to get rid of the yoke of "mother Russia" and everyone at the fund soon understood the political and historical sensitivities of having many of the former Soviet states join the Russian constituency. Moreover, fund management realized that placing the ex-Soviet republics under the smaller European state constituencies, like those of Belgium and the Netherlands, greatly enhanced the legitimacy and efficacy of these smaller European-led seats. Indeed, several executive directors interviewed noted that the Belgians and the Dutch were actively and aggressively trying to recruit the ex-Soviet republics to join their constituencies. Countries like Belarus and Kazakhstan, however, did suggest that they wanted to stay "in the bosom" of mother Russia, but the Russians did not want to take on these two smaller states.

Russia felt there was greater national prestige in having a sole constituency-free seat on the board. Similarly, fund management wanted to cater to Russia as the political mood was inclined to give Russia the "red carpet treatment." Indeed, the Russians perceived their sole seat without a constituency as a matter of national prestige and international right as a former superpower. Moreover, incoming executive director Kagalovsky made it clear to fund management early in the membership negotiation process that it would not take on ex-Soviet republics in its constituency. Kagalovsky argued that it was tired of "subsidizing" the ex-Soviet republics, including Belarus and Kazakhstan, and it wanted to turn a new leaf and end the Soviet Union in all respects, including its future place on the board. Consequently, the idea of a Russian executive director taking on a constituency was dropped very early, as both the ex-Soviet states made clear their historical and political sensitivities of having Russia as their patron and as Russia wanted the sole seat as a matter of prestige.

Now that the political mood on the fund's executive board, supported by the powerful G7 capitals, was in favour of having the Russians get a sole seat, Russia's quota allocation share had to weigh in. In other words, the fund needed to work backwards to give technical weight to the argument that Russia was a relative economic power. According to personal interviews with IMF executive directors and US officials, the sentiment at the time was that a seat at the board needed to be matched with the prestige of a substantial quota allocation. To do this, the IMF staff—primarily of the treasury department and to a lesser extent the European II department—had to figure out the technical data needed to assess and propose Russia's quota share.

Here we find the IMF at odds with itself, torn between the political reality of powerful support for Russia's executive board seat and the technical uncertainty of Russia's relative economic weight that needed to be figured into its quota allocation. The fund staff were kept in the dark about the political promises and nudges of a future Russian executive board seat, but once they understood the political implications, they were now put in the awkward position of working backwards to find the quota share that justified Russian prestige at the board.

FUND STAFF WORKING BACKWARDS

Staff of the treasury and European II departments went to Russia in January to assess the country's overall economic situation. The area department staff reported on Russia's price liberalization of consumer goods that resulted in a near tripling of prices. According to the managing director, Yeltsin's 2 January price liberalization policies were a "very important and traumatic experience, as the liberalization involved 90 percent of consumer prices and 80 percent of producer prices, coupled with increases of three to five times in the remaining administered prices." The staff cautioned the Russian authorities, however, that fiscal and monetary policies needed to be tightened further, in aiming for balanced budgets. In achieving these goals, the fund prescribed privatization, raising taxes, further price liberalization, cutting social expenditures, and exchange rate unification to promote exports.[23]

The IMF staff also started calculating the proposed quota allocation of the prospective members. In February, the fund's treasury department staff proposed quota calculations for the former Soviet republics. The staff noted the difficulty in assessing quotas of 15 independent members using combined data sets of the former Soviet Union. The staff cautioned that the quota calculations were "somewhat arbitrary" and were "an approximation" of independent members' economic size. The problem, according to the treasury department staff, was that Soviet republics' data sets could not be considered to be "economic" and were "not comparable....with the statistics of independent countries or territories that functioned as separate economic entities." They warned further that "data must be treated with caution in assessing the relative economic positions of the individual republics" and that "the use of the data on gross domestic movements of goods as part of the tradable sectors of the individual republics for the purpose of making quota calculations would inflate the quota calculations for these republics." Moreover, much of the data were missing, including critical year sets. Consequently, the treasury staff noted that its data matrix was "less than one third complete."[24]

Based on variables used in the eighth general review, the treasury staff proposed that the former Soviet Union republics as a whole should get 3.66 percent of fund quotas; based on variables used in the ninth general review, the staff proposed a 3.19 percent allocation. The staff determined further that the Soviet Union as a whole was smaller than Italy and larger than the Netherlands. In terms of desegregating the Soviet Union economy to determine the relative strength of individual republics, the staff estimated that the Russian economy represented 61 to 66 percent of the Soviet economy. These were based on various composite indicators, including the Bretton Woods formula used by the IMF. In all, the fund staff argued that Russia's

23 Michel Camdessus, "Executive board minutes," IMF, Washington, DC, 5 February 1992, 92/14, 5. See also Camdessus, "Statement by the managing director on Russia during an informal meeting of the executive board," IMF, Washington, DC, 27 February 1992, 92/36, 1.
24 "Quota calculations of the republics of the former Soviet Union: Methodological issues," memo to the members of the committee of the whole on methodology for quota calculation of the republics of the former Soviet Union, EB/CW/QMethodology/92/1, IMF, Washington, DC, 28 February 1992, 2-4.

quota should be approximately 2.34 percent of overall fund quotas, based on the quantitative criteria it had laid out and based on the approximations made with regard to incomplete data.[25] The staff report was circulated to the IMF's executive directors in late February, but the G7 executive directors, led by the United Kingdom which was temporarily representing the Russians at the board, wanted to see the Russian quota share increased.

After several board meetings on 19 and 20 March, the executive board asked the staff to reconsider its quota calculation by taking a closer look at four "qualitative" factors: 1) depreciated exchange rates, 2) interrepublic trade, 3) an openness ratio, and 4) the depreciation component of GDP used in calculating the former Soviet Union's quota allocation. The treasury staff took the four "qualitative" factors into consideration and ran the numbers again. First, when the staff recalculated the quota estimation based on the revised exchange rate information, Russia's proposed quota allocation dropped in a range from 1.97 to 2.24 percent of total fund quotas. Second, staff reiterated their previous position regarding inter-republic data: "the staff has noted, conceptual issues apart, the extreme paucity and irregularity of data on interrepublican trade for most republics make it difficult to incorporate systematically the available figures in the data needed to make quota calculations." Third, the treasury staff took the openness ratio as part of its variables used in calculating Russia's quota and found no statistically significant change in the quota recommendations initially made. Finally, the treasury staff argued that the depreciation component of GDP was already "extensively discussed between the fund staff and USSR goskomstat officials," seeing no possible change in quota calculations.[26] Treasury staff were not budging on the methodological problems associated with using interrepublic trade data and depreciation component of GDP in recalculating of Russian quota, despite executive director prompting. The treasury staff did not produce the numbers that would satisfy key executive directors.

The executive directors from the G7 met outside the IMF in Washington, DC, to informally discuss, off the record, the Russian quota share calculated by the staff. The EDs felt that the Russian quota share, cal-

25 "Quota calculations," 22, 27, 32.

26 "Statement by the staff representative in response to questions raised by executive directors, committee of the whole on membership for the republics of the former USSR," memo to the members of the committee of the whole on membership for the Republics of the former USSR, EB/CW/QMethodology/92/5, IMF, Washington, DC, 26 March 1992, 5.

culated by the treasury department staff, was too low and was not commensurate with Russia's future seat at the executive board. The G7 EDs, following instructions of their capitals, reaffirmed that a three percent quota allocation would be the right number to give Russia the prestige needed at the board. This would put Russia's quota share immediately below Italy, the last of the G7 states. The task for the G7 EDs, on the instructions of their capitals, was to find the set of technical figures that would give Russia the three percent quota allocation share and to ensure that Poland and Ukraine would get equivalent quotas. At least two G7 ED offices started working on this behind the scenes. Indeed, as the treasury staff cautioned in their original calculations, trade data was the key to inflating the numbers that would give Russia its three percent quota allocation. As one executive director noted, it was sheer "luck" that once interrepublic trade data was entered into an "openness ratio" formula, the required figures were reached. The Russian interrepublic trade data that was provided to the two G7 ED offices were, however, unverifiable and several interviewees noted that they were believed to have been fabricated by Russian authorities. Russia, however, would again be given the benefit of the doubt as G7 states wanted to see the universalization of fund membership in a way that was inclusive of a strengthened Russia.

The executive directors, particularly from the G7, nudged the staff to recalculate quotas using interrepublic trade data provided, which EDs argued counted as an equivalent to inter-country exports. The IMF staff were frustrated with this "double-dipping" type of data that both exaggerated trade and was based on illogical assumptions about the autonomy of these states to trade with each other. Interestingly, Camdessus commented a few weeks later that there was "a whole array of problems relating to interrepublican trade. As we all know, the existing pattern of trade among the republics is highly artificial, a legacy of the central planning system."[27] That said, the IMF treasury staff returned to calculating various scenarios of Russian quota allocations using interrepublic trade data. The treasury staff noted "the use of the openness ratio has been developed in the context of providing some possible guidance to Directors in their consideration of a judgmental allowance when finalizing their recommendations as regard [to] the quotas of the 15 republics." The treasury staff presented 16 possible

27 Michel Camdessus, "Economic transformation in the fifteen republics of the Former USSR: A challenge or an opportunity for the world?" Address to Georgetown University school of foreign service, IMF, Washington, DC, 15 April 1992.

quota allocations for Russia, based on a variety of variables and data provided: numbers ranged from 2.73 percent to 3.07 percent of total shares.[28] Treasury's next report noted, "the quota calculations made for the republics of the former USSR have not made allowance for each republic's interrepublican trade. In this connection, the Directors have agreed that such an allowance would be made in a qualitative and consistent manner for each of the republics." This produced the number the G7 executive directors had been aiming for: a three percent quota allocation for Russia.[29]

The executive board had its final meeting on 31 March 1992 to discuss the Russian quota, and the Russian representative took that opportunity to make a strong case for Russia's three percent fund quota share. At the executive board, Kagalovskiy argued that

> while a proposed quota was of course based on the established methodology for calculating quotas, a quota proposal was also a political matter. In the current situation of Russia, the size of the quota recommended by the [Executive board] Committee was a symbol of the Fund's support of the Government's economic policies.[30]

Kagalovskiy "hoped that directors would bear that fact [of the political situation] in mind in reaching their conclusion on a quota for Russia. Membership in the fund would have to be ratified by the parliament, which was likely to act only if the quota size was acceptable. Accordingly, he hoped that board members would recommend a quota share for Russia of at least three percent." The Russian parliament would not only have to ratify its membership application to the IMF, but also a series of legislative changes that the IMF staff insisted upon as precursors to full membership. These accession-based conditions included constitutional changes and increasing

28 "The republics of the former Soviet Union: The calculation of increase in quota under the ninth general review," memo to the members of the committee of the whole membership for the republics of the former Soviet Union, EB/CW/QMethodology/92/4, IMF, Washington, DC, 25 March 1992, 2.
29 "Russian Federation: Calculation of quota," memo to the members of the committee of the whole on membership, Russian Federation, EB/CW/QMethodology/92/1, IMF, Washington, DC, 30 March 1992, 6.
30 IMF minutes, committee of the whole on membership, Russian Federation, meeting 92/1-3/31/91, IMF, Washington, DC, 30 March 1992, 3.

the president's legislative powers. The Russian representative needed to go home to parliament and make the case that the fund had faith in Russian economic reforms, signified as he believed by a three percent quota allocation, in order to get approval of necessary legislative changes when the parliament reconvened in five days.

The Japanese executive director responded that quota allocations were not only based on "exchange rate and GDP, but also [on] a kind of judgmental political or social factor." Indeed, the fund managing director confirmed the Japanese argument stating that "including an appropriate judgmental element was fully in keeping with the tradition of committees on membership." The Russian representative did not want to go home empty-handed and sought immediate executive board commitments. As he noted in the 31 March executive board meeting, "the Russian authorities were keen to make some sort of public announcement about the committee's recommendation, provisional or otherwise, as quickly as possible, and preferably immediately after the consultation of the current meeting."[31] The board conceded this and that same day, 31 March 1992, the fund's external relations department made the unusual public news release of agreement on Russia's three percent total quota share. Publicizing Russia's quota share before the board of governors approved it, as well as before Russia was even admitted as a member, was unorthodox indeed. However, the Russians believed that they were now in the position to better sell their economic reforms to parliament.

The announcement of Russia's three percent quota allocation played extremely well in Russian media sources. A few days after the executive board meeting and before the reopening of parliament, the *Komsomolskaya Pravda* reported that the IMF quota decision gave Yeltsin "a powerful trump card" while "the theme of replacing the government has been softened appreciably in the past few days." Similarly, *Izvestia* reported that the three percent quota allocation demonstrated the international financial community's vote of confidence in Yeltsin's policies. The *Nezavisimaya Gazeta* headline read "Russian Federation government's sensational success—not only will Russia be admitted to the IMF, but its quota will rank it right after the G7 countries." Finally, Otto Latsis, *Izvestia*'s outspoken and well-known writer, wrote "not only will the IMF influence our development but also we—as the holder of a large quota—will influence the

31 IMF minutes, 3, 4, 9.

economic development of the entire world through the IMF."[32] When parliament reconvened in April, the mood had been relatively calmed and although Yeltsin did not get the legislative authority he wanted, parliament agreed not to overthrow, but rather to "adjust," the economic reform plan. This was a relative success, attributable in part to the relatively generous IMF quota allocation interpreted as an international vote of confidence in Russian economic reform plans and Russia's new role in international decision-making. As former IMF board members have noted, Russia's position on the executive board remained a prestigious one, but also a quiet and low-profile position to this day: Russia has preferred to go along with the consensus view on the executive board.

CONCLUSION

The IMF executive board, spearheaded by the G7 executive directors, built a special case for Russia to secure a seat. There are a number of factors of this historical account worth highlighting. First, the fund management and executive board were caught up in the positive mood of the international political climate that was in favour of giving Russia the benefit of the doubt in terms of its relative economic weakness and missing data. Having a strong Russia join the fund and the executive board would finally universalize the institution. There is no doubt for many inside the fund that the symbolic power of this universality sentiment helped shape many of the fund's internal decisions on Russia. After all, the fund would now be the inclusive international organization envisioned by its creators in embracing the former communist states and helping them in their formidable task of economic, social, and political transition. Moreover, Russia's superpower legacy could not be ignored at the board, and the IMF's uncertain future made it more pressing to have the once great empire join the IMF's top echelon of power. Again, by far the sentiment of fund membership being universalized was the most powerful force behind the case of Russia getting a seat on the executive board.

32 I Sickha, "We are exchange the (new) constitution for the government," *Komsomolskaya Pravda*, 4 April 1992; Pavel Golub, "IMF gives Russian government vote of confidence," *Izvestia*, 1 April 1992; Mikhail Leontyev, "Russian Federation government's sensational success," *Nezavisimaya Gazeta,* 2 April 1992, all in *Current Digest of the Post-Soviet Press*, 29 April 1992 vol. XLIV, no 13; Otto Latsis, "Forty seven years late," *Izvestia*, 28 April 1992, *Current Digest of the Post-Soviet Press*, 27 May 1992, vol. XLIV, no 17.

Second, it is important to note that Russia's quota was pegged past the lowest of the G7—Italy—for political reasons. Soon after achieving a seat on the executive board, Russia would become part of an expanded organization—the G8. This does not seem to be a coincidence, and would prove to be an investigation worthy of study. The fact that G7 states could not provide a Marshall plan-style solution to Russia's dire economic position was an impetus to sweeten Russia's membership application with a seat on the executive board. What also stands out is that other G7 states, like Italy and Canada, did not get a sole constituency-free seat despite having greater quotas than Russia. There is a difference then, between quota allocations and representation on the executive board that is often unexplored. Moreover, having a constituency is not always a burden as the Russians had viewed it. Canada has preferred its constituency because it suits its self-described image as a state that favours multilateralism, and Canada enjoys noting that it represents both developed and developing countries at the executive board.

Third, the case reminds us that indeed while the board was accustomed to viewing the world through political lenses, the IMF staff remained true to its character: a technical, quantitatively guided body of professional economists. The IMF staff are technocrats committed to the economic principles of their craft and it took considerable executive board prompting to get the staff studies in line with their preferred outcome. Throughout the ranks of the staff, however, the politicization of Russia's seat on the board was never internalized: staff preferred, in their own way, to remain aloof and untainted by the board's actions. Consequently, for IMF reform debates today, the case reminds us that the institution is torn between meeting the needs of its political masters, the executive board, the powerful G7 capitals, and the technically oriented staff.

Fourth, there were genuine objective difficulties in applying the Soviet statistical data for the purposes of the fund's quota calculations including: missing time series of data, communist measures of GDP (which did not include services and were based on artificial prices), inflated Soviet exchange rates used in data sets, and, of course, interrepublic trade data. The staff wanted to work through these difficulties to achieve the appropriate, technical numbers. The executive board—led by the G7 and most notably the United States, who all wanted burden-sharing through the IMF—appeared relieved when the Russians fabricated the data needed. Again, for the board, this politicization was for the greater good of the institution and—arguably in their eyes—for the long-term economic and political stability of the world. The board accepted that when it comes to getting a seat at the board and determining quota allocation a political, in their words "qualitative" or "judgmental," factor was an acceptable part of IMF tradition. Indeed, as Mikesell's tale of the history of IMF quota allocation first noted, despite the presence of quantitative and technical formulas, the IMF worked backwards—ranking members' relative power position at the board and then using the technical figures to justify the received stature. Getting Russia a seat at the IMF table took considerable politicking and bending the variables used in technical formulas to produce a quota allocation commensurate with the prestige of its sole constituency-free seat on the executive board.

Finally, the case of Russia getting a seat on the board helps enrich existing debates among bureaucratic organization theorists, realists, and delegation theorists on determinants of decision-making. The case supports bureaucratic organization theorists' findings that the IMF is a self-proclaimed technical and quantitatively modeled institution. However, the staff's ideational power was no measure of the heavy politicization by the executive board and, more importantly perhaps, of the outer political pressure from G7 capitals. It was difficult, although still possible, for the executive board to politicize the institution's technical mandate when geostrategic interests were deemed to be at risk. To suggest, as many realists do, that the IMF staff are pawns of the executive board greatly underestimates their intellectual and technical autonomy in the institution. It is clear that there is a need for better appreciation of the impact of the IMF staff's technocratic character on IMF decision-making. To this end, delegation theory indeed provides a useful bridge between the constructivist/rationalist divide. Delegation theory accepts the possibility of autonomous staff behaviour, particularly when staff are delegated technical tasks, but correctly notes that principals will rein in the staff when powerful members' interests are at risk. The IMF's institutional design, a small executive board tilted in favour of US and G7 power, facilitates oversight of technically oriented staff.