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*Jonathan Crossen and Bessma Momani*¹

Rebuking Soviet IMF Membership in an Era of Glasnost

ABSTRACT

Soviet leader Mikhail Gorbachev was keen to join the IMF as a sign of the international community's confidence in perestroika and in his leadership. Based on archival material, US government freedom of information requests, and personal interviews it appears that the Soviet application to join the IMF was rejected. The G7, led by the United States, had serious doubts about Gorbachev's commitment to join the free-market community. In contrast, first Russian President Boris Yeltsin was encouraged to apply for full membership only days after taking office. This article chronicles the debate in international capitals on the fate of the Soviet application in the IMF and reveals this unknown period of international relations. Moreover, this case teaches us the value of being viewed as a part of the community of states as an explanation for gaining membership into international organization.

Key words: IMF; Soviet Union; Russia; membership; international organizations.

Returning the Soviet Union to its Rightful Place at the IMF?

The Soviet delegation attended the Bretton Woods meetings in New Hampshire in 1944, which then gave birth to the International Monetary Fund and the World Bank. As Raymond Mikesell, former adviser to the US Treasury delegation, noted in his memoirs of the Bretton Woods meetings, the Soviet delegation were friendly participants in the conference and were jovial with US Treasury officials. Indeed in official IMF histories, noted that the Soviet delegation were active participants in the Bretton Woods meeting.² Then, after

¹ Professor Bessma Momani, University of Waterloo, Department of Political Science Waterloo, Ontario, Canada. Email: bmomani@uwaterloo.ca.

² De Vries, Margaret Garritsen, Horsefield, J. Keith (eds.), *The International Monetary Fund, 1945–1965: Twenty Years of International Monetary Cooperation*, 3-Volume set, IMF, 1986, p. 117.

negotiating the final agreement and gaining one of the five coveted appointed seats at the IMF and World Bank Executive Boards — also held by the United States, China, United Kingdom, and France — the Soviet Union would rescind their membership in these organizations and end another post World War II moment of Allied unity. For many at the time, the Soviet decision to withdraw from the IMF was a shock and wholly unexpected.

In the official IMF history, the Soviets gave no reason for their decision not to join the organization.³ The IMF official historians have not, moreover, chronicled this important part of history. According to Miksell's autobiography, he states that

“So far as I am aware, the Soviets never gave their reasons for refusing to join. I believe their refusal was part of the general Soviet move toward isolation from the capitalist countries after the war and reflected the fear that soviet officials co-operating with the West in these international financial institutions would compromise their loyalty to communism.”⁴

The head of the US delegation to Bretton Woods, and future US Executive Director at the IMF, Harry Dexter White lamented that more should have been done to keep the Soviets in the Fund. Against the advice of the State Department, White had insisted on a compromise with the Soviet Union; a move that eventually precipitated his own downfall.⁵

Nearly fifty years would pass and with the Cold War nearing its end when in the summer of 1991, the IMF officially announced that it had received Soviet Union President Mikhail Gorbachev's formal request for full membership for the USSR. In great surprise to Gorbachev, the IMF had decided to reject the “pre-mature” application. That fall, Gorbachev conceded to a special “association status” in the Fund, but by the end of the year he would resign and the Soviet Union would cease to exist. On December 27, merely two days after Gorbachev's resignation, an IMF Executive Board meeting decided to advise the leader of newly independent Russia, Boris Yeltsin, to submit a new application for full membership. Days later, the IMF would welcome Russia into the Fund, and soon after would give it a coveted seat at the Executive Board by extending the size of the board to accommodate a sole seat for Russia. Why was Gorbachev's Soviet Union denied membership at the IMF, only to turn around and welcome Russia (with a seat at the board and a quota significantly higher than normal quantitative formulas would demand) less than 6 months later?

³ Ibid.

⁴ Miksell, Raymond Frech, *The Bretton Woods Debates: A Memoir. Essays in International Finance*, Princeton University, International Finance Section, Princeton, 1994, p. 42.

⁵ Ibid. p. 56.

The purpose of this article is to unravel this unknown part of international relations through process-tracing of this critical transition in global politics by using officials' memoirs, IMF archival material, George Bush Presidential papers, and secondary material. Personal interviews with IMF staff, Executive Directors, and US officials involved in the Soviet and Russian negotiations to join the IMF were conducted in Washington, DC. This case helps us to better understand why members join or who is allowed to join international organizations. Furthermore, the uniqueness of this case allows us to infer some arguments that could be considered by the theoretical literature on international organizations and international relations more broadly speaking.

Who Gets into and Why Join International Organizations?

Surprisingly, international relations theory tells us less about who and why states join international organizations than about theorizing international organizations' relevance, efficacy, and purpose. However, a number of theories on international organizations can help us frame assumptions about states' motivations to join and to accept members. Here we review realist, neoliberal intuitionism, and constructivist arguments to give insight into this question.

Traditional realist and neorealist theories explain that dominant states want to join international organizations to use them as instruments in accordance to achieving their grander political and economic preferences. Realists argue that the international distribution of power is the primary causal factor in determining how states determine their decisions, including whether to join an international organization. It is assumed that "the strong do what they can and the weak suffer what they must".⁶ The more powerful a state is the more likely it will be able to influence weaker states through international organizations: "[t]he most powerful states in the system create and shape institutions so that they can maintain their share of world power, or even increase it."⁷ A powerful state will use a variety of instruments at its disposal, including international organizations to achieve their objectives.

Neorealists add that powerful states use international organizations to "launder" their policies; in other words, an international organization can make conditions that would otherwise be seen as "neocolonial" when it is a bilateral instrument.⁸ Consequently, international organizations are merely "intervening

⁶ Jeffrey Legro, Andrew Moravcsik, "Is Anybody Still a Realist?", *International Security*, Summer 2000, Harvard College and the Massachusetts Institute of Technology, 2000, p. 17.

⁷ John Mearsheimer, "The False Promise of International Institutions", *International Security* No. 19 (Winter), 1995, p. 13.

⁸ Kenneth Abbott, and Duncan Snidal, "Why States Act Through Formal International Organizations", *Journal of Conflict Resolution* 42, 1 (February), 1998.

variables” with no independent causal affect on outcomes.⁹ Although Gruber (2000) and other neorealists remained skeptical about the real returns on membership in international organizations, Gruber has argued that once organizations are established the costs of not joining are then too high. In the case of the IMF, the United States controls the IMF through its economic resources, be it in the form of gold, foreign exchange, or SDRs deposited into the Fund’s liquidity — not to mention the larger “structural power” of the United States in the global economy in determining policy outcomes.¹⁰ This translates into significant US decision-making power within the organization, including loans, staffing, and ideology.¹¹ Clearly, realist theories can tell us a lot about why powerful states want to join international organizations, but it tells us little about why less powerful states would want to join unless they were forced to do so by the powerful.

Institutionalists argue that the presence of international organizations can change states’ behavior under certain circumstances. Therefore, international organizations are not necessarily the pawns of strong states but can be independent in shaping even strong states’ interests and objectives.¹² Moreover, neoliberal institutionalists contend that we are “witnessing a move to law”.¹³ Therefore, neoliberal institutionalists claim that legalization has led to the increased importance of international organizations and the increased desire of states to be members of international organizations. Neoliberal institutionalism explains that states join international organizations to overcome potential coordination problems, reduce transaction costs, decrease chances of defection and cheating, and to enhance burden sharing.¹⁴ Others have argued that states want to join international organizations to signal their commitment to international norms and behavior, to enhance their international and domestic legitimacy, or to conduct scapegoating by tying their hands to

⁹ John Mearsheimer, “The False Promise of International Institutions”, *International Security* No. 19 (Winter), 1995. p. 13.

¹⁰ Susan Strange, *The Retreat of the State*, Cambridge University Press, Cambridge, 1996.

¹¹ Bessma Momani, “American Politicization of the International Monetary Fund” in *Review of International Political Economy* 11, 05/12/2004 I, Fall.

Bessma Momani, “Another Seat at the IMF Table: Russia’s IMF Executive Director”, *International Journal*, (Fall). 2007.

¹² Keohane, Robert and Lisa Martin, “The Promise of Institutional Theory”. *International Security* 20, 1 Summer, 1995, pp. 39–51.

¹³ Goldstein, Judith L, Kahler, Miles, Keohane, Robert O, Slaughter, Anne-Marie, “Legalization and World Politics”, *Harvard international law journal*, Vol. 40, 2000. p. 386.

¹⁴ Robert Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy*, Princeton University Press, Princeton, 1984.

international rules of the game.¹⁵ Many have furthered that democratizing states in particular want to join international organizations to enhance their international credibility to reform. Moreover, there may be an added incentive to join organizations like the IMF where there is an assumed positive signaling or catalytic effect on attracting added private investment. Neoliberal institutionalism is better at helping us understand why states want to join international organizations, but less useful in explaining who gets into an organization.

Constructivism offers an alternative approach to the study of international relations and international organizations by examining the role of internationally-held norms, beliefs, and shared values. Constructivists interested in international organizations have argued that international organizations can be both the receivers (learners) and transmitters (teachers) of these norms, beliefs and values.¹⁶ States may want to join international organizations in order to be at the table when framing international norms and values.¹⁷ Joining an international organization can also be “reputation-enhancing”, particularly when wanting to demonstrate their international worthiness or when wanting to convince states and markets that they are liberalizing, democratizing, and legitimate.¹⁸ Existing members of international organizations may also want to restrict membership to international organizations to those who are like-minded, have shared interests and ideas, and shared values and beliefs. Using constructivist approaches we may find that material interests and power, as realists would contend, may not be a complete explanation for why members join or who is admitted into international organizations. Using the case of the Soviet Union and the IMF is an opportune one to examine the theoretical implications of the question who gets into and why join international organizations.

¹⁵ See Jon Pevehouse, “Democratization, Credible Commitments and International Organizations”, in Daniel Drezner, ed. *Locating the Proper Authorities*, Ann Arbor, University of Michigan Press, 2002.

Denis Rey, and John Barkdull, “Why Do Some Democratic Countries Join More Intergovernmental Organizations Than Others?” *Social Science Quarterly*. Vol 86, Iss 2, 2005, pp. 386–402.

¹⁶ Martha Finnemore, “Norms, culture, and world politics: insights from sociology’s institutionalism”, *International Organizations*. 50 (2), 1996. pp. 325–47.

¹⁷ Edwards Martin, et al., “Sins of Commission?: Understanding Membership Patterns on the United Nations Human Rights Commission”, *Political Research Quarterly*. Vol 61, No. 3, 2008. p. 393.

¹⁸ *Ibid.*

Gorbachev Courts the Western World to Join the IMF

When George H. W. Bush was inaugurated as President in January 1989, Mikhail Gorbachev had already been head of the USSR for nearly four years. Jack Matlock, who worked for the National Security Agency at the time, describes his initial impressions of Gorbachev in May 1985: “proud, defensive, clever in debate and not totally oblivious to the facts”.¹⁹ Matlock quickly came to believe Gorbachev was different than previous Soviet leaders, and not just because he was an articulate speaker.

Over the next few years, the new Soviet General Secretary would surprise even Matlock as he demonstrated his desire to change the system. Initial steps were slow, but by the summer of 1986, Gorbachev was using the terms *perestroika* or “restructuring” and *glasnost* or “openness” not only in reference to the economy, but toward the Soviet political system as well.²⁰ The Reykjavik Summit in October would begin the path toward the Intermediate-Range Nuclear Forces (INF) Treaty, signed by Reagan and Gorbachev in December 1987. Even when Americans refused to follow, Soviet leaders made unilateral steps towards disarmament.²¹ In the spring of 1988, the signing of the Geneva Accords included provisions for the withdrawal of Soviet troops from Afghanistan. During his visit to Moscow in May 1988, Reagan was asked if he still considered the Soviet Union the “evil empire” he had described in a speech years earlier. Reagan replied that he had been “talking about another time, another era” and now considered Gorbachev a friend.²²

In his position as Vice-President during the Reagan administration, Bush often seemed less enthusiastic about Gorbachev’s changes, and interacted little with the General Secretary. Early in his 1988 Presidential campaign, Bush informed the National Press Club that they should not mistake Gorbachev, an “orthodox, committed Marxist” for a “freedom-loving friend of democracy”.²³ He warned against a “euphoric, naively optimistic view of what comes next”, insisting publicly that summer that the Cold War had not yet ended.²⁴ George

¹⁹ Jack F. Matlock, *Autopsy of an Empire: The American Ambassador’s Account of the Collapse of the Soviet Union*, Random House, New York, 1995. p. 52.

²⁰ Ibid.

²¹ Don Oberdorfer, *From the Cold War to a New Era: The United States and the Soviet Union, 1983–1991*, Johns Hopkins University Press, Baltimore, 1998. p. 222.

²² Ibid. p. 299.

²³ Michael R. Beschloss, and Strobe Talbott, *At the Highest Levels: The Inside Story of the End of the Cold War*, Little, Brown and Company, Boston, 1993, p. 9.

²⁴ Michael R. Beschloss, and Strobe Talbott, *At the Highest Levels: The Inside Story of the End of the Cold War*, Little, Brown and Company, Boston, 1993, p. 9.

Shultz, Reagan's Secretary of State, described Bush's attitude at a luncheon with Gorbachev in December 1988 as "a reluctant presence".²⁵ When the Soviet leader described the positive progress of reforms, Bush (by then President-elect) suggested that American investors would need to know where these reforms were leading, where the USSR would be in three to five years time.²⁶

Domestically, Bush was in a difficult position. Reagan's credentials as a conservative were absolutely impeccable, which allowed him to pursue an increasingly warmer relationship with the Soviets without fear of losing popularity from the right wing of the Republic Party. Bush did not benefit from the trust placed in his predecessor, and needed to work a balancing act in order to follow his desired course of action without accusations of being soft on communism. His administration staff was made up of a close circle of men, all of whom were skeptical about Gorbachev and the rate of change in the Soviet Union.²⁷ Brent Scowcroft, Bush's new National Security Advisor that had held the same position under President Ford, felt that Gorbachev was using the same "clever bear" tactics that Brezhnev had used during *détente*: "pursuing expansionist goals while lulling the West into lowering its defenses".²⁸ Bush began his administration with a promise to complete a substantial review of US-Soviet relations before making any further moves.²⁹

This stage of analysis would carry on well into the first several months of Bush's presidency, especially because it got off to a slow start. In mid-February 1989, the president requested a comprehensive National Security Review (NSR-3) of U.S. foreign policy towards the Soviet Union.³⁰ When the report came back a month later, it was a mixture of optimism and doubt. Gorbachev's

Raymond L. Garthoff, *The Great Transition: American-Soviet Relations and the End of the Cold War*, The Brookings Institution, Washington, D.C., 1994. p. 358.

²⁵ Don Oberdorfer, *From the Cold War to a New Era: The United States and the Soviet Union, 1983–1991*, Johns Hopkins University Press, Baltimore, 1998. p. 321.

²⁶ *Ibid.*

²⁷ Bush suggests that the members of his incoming team were more suspicious of Gorbachev than he was himself. Source: George W. Bush, and Brent Scowcroft, *A World Transformed*, Alfred A. Knopf, New York, 1998, p. 9.

See also Raymond L. Garthoff, *The Great Transition: American-Soviet Relations and the End of the Cold War*, The Brookings Institution, Washington, D.C., 1994, p. 375.

²⁸ Michael R. Beschloss and Strobe Talbott, *At the Highest Levels: The Inside Story of the End of the Cold War*, Little, Brown and Company, Boston, 1993, p. 12, 17.

²⁹ Don Oberdorfer, *From the Cold War to a New Era: The United States and the Soviet Union, 1983–1991*, Johns Hopkins University Press, Baltimore, 1998. p. 332.

³⁰ Raymond L. Garthoff, *The Great Transition: American-Soviet Relations and the End of the Cold War*, The Brookings Institution, Washington, D.C., 1994, p. 376.

policy of *Perestroika* did benefit the United States; however, these gains were largely made up of leverage to manipulate other Soviet policies.³¹ On the contrary, Gorbachev's goal fuelling the reforms was described a desire to re-tool the USSR into a "more competitive superpower", and in the mean time, the friendly relations proposed by Gorbachev were seen as having the potential to "divide the Western alliance".³² By this time, however, there seems to have been a shift among Bush's advisors. Scowcroft criticized his staff for being stuck in old, conservative ways of thinking and accused them of being "a bunch of old curmudgeons".³³ (Bush and Secretary of State James Baker, for their part, were disappointed that the report offered few new ideas.

The delay in waiting for President Bush to decide a strategy — what Gorbachev impatiently referred to as "the pause" — began to frustrate people on both sides of the iron curtain. Eduard Shevardnadze, the Soviet Union's Minister of Foreign Affairs, worried that the new American administration would throw away all the gains that had been made.³⁴ British Prime Minister Margaret Thatcher privately made her concerns known about the slow-down on the American side.³⁵ The New York Times ran a series of articles suggesting that the Cold War was indeed over.³⁶ Criticism by Jack Matlock, who had since been appointed Ambassador to the Soviet Union, and even comments by former President Reagan began to pressure Bush to "pick up the ball".³⁷

The lifting of a ban on Poland's Solidarity movement may have sparked further developments.³⁸ On April 17, 1989, Bush announced that continued economic and political reforms in Poland could lead to American trade and credits.³⁹ That summer it became clear that Gorbachev would not use force to maintain communism in the Eastern Bloc. By the end of August, Poland had elected a non-communist government. Before the end of the year, communists fell from power in Hungary, Czechoslovakia, East Germany, Bulgaria, and Romania.

³¹ Ibid, p. 377.

³² Ibid.

³³ Michael R. Beschloss, and Strobe Talbott, *At the Highest Levels: The Inside Story of the End of the Cold War*, Little, Brown and Company, Boston, 1993, p. 45.

³⁴ Ibid.

³⁵ Ibid. p. 29, 31.

³⁶ Ben B. Fischer, *At Cold War's End: US Intelligence on the Soviet Union and Eastern Europe, 1989–1991*, Central Intelligence Agency, 1999. p. xiv.

³⁷ Raymond L. Garthoff, *The Great Transition: American-Soviet Relations and the End of the Cold War*, The Brookings Institution, Washington, D.C., 1994, pp. 377–8.

³⁸ Michael R. Beschloss, and Strobe Talbott, *At the Highest Levels: The Inside Story of the End of the Cold War*, Little, Brown and Company, Boston, 1993, p. 53.

³⁹ Ibid. p. 54.

The Democratic Party supplied enormous pressure to send substantial aid to Poland and Hungary. Even after the White House had agreed to \$50 million in emergency food aid and another \$50 million in longer-term aid (dipping into the following year's budget) in September, Democrats in the Senate Foreign Relations Committee approved a further \$1.2 billion aid package for Poland and Hungary.⁴⁰ Bush felt trapped: while seriously concerned about the significant budget issues faced by his administration, he worried that "[i]f this historic evolution away from the clutches of the Soviet Union and Leninism failed because of our deference to bureaucratic accounting practices, history would never forgive us".⁴¹ As the Eastern Bloc crumbled, Soviet foreign policy lost its primacy among American concerns. Communist "interference" in Cuba and Central America were still important issues, but Bush's administration began to focus more on the internal situation in the Soviet Union.⁴² This included both Gorbachev's economic reform policy and his treatment of the Baltic and Caucasian states.

By late 1989 and early 1990, George Bush's cabinet was even more divided over Gorbachev's sincerity in pursuit of "comprehensive reform". James Baker was the most optimistic, possibly owing to his increasingly friendly relationship with Shevardnadze.⁴³ Baker nevertheless had doubts about the sincerity of Gorbachev's reform; he later recollected that "At heart, it is my view that Gorbachev was a reformer, he was not truly a revolutionary. I think he sought reform as a way to strengthen and renew communism and for that matter to strengthen and renew the Soviet Union as a superpower itself. I think he felt that he could somehow modify socialism without fundamentally altering that system".⁴⁴ Robert Gates, Director of Central Intelligence, was more cynical, believing Gorbachev merely wished for small reforms that might easily be reversed. Secretary of Defense Dick Cheney was rather pessimistic, and supported the continuation of the "Cold War-style... hard-line policies". Vice President Quayle was most skeptical of all and despite the fall of the Berlin Wall, believed the "changes" were simply a cunning deception on the part of the Soviets.⁴⁵ Bush was relatively confident that Gorbachev would be able to survive and make good on his promises to reform, but was concerned about the

⁴⁰ George W. Bush and Brent Scowcroft, *A World Transformed*, Alfred A. Knopf, New York, 1998, p. 138–9.

⁴¹ *Ibid.*

⁴² Ben B. Fischer, *At Cold War's End: US Intelligence on the Soviet Union and Eastern Europe, 1989–1991*, Central Intelligence Agency, 1999, p. xix

⁴³ George W. Bush and Brent Scowcroft, *A World Transformed*, Alfred A. Knopf, New York, 1998, p. 154.

⁴⁴ *Ibid.*

⁴⁵ George W. Bush and Brent Scowcroft, *op. cit.*, p. 155.

opposing forces growing within the USSR.⁴⁶ Were the President to apply too much pressure, he might spark a backlash by more conservative communists; too little and he would be harshly criticized for failing to support the freedom of the Baltic states or to bring about real change in the Soviet Union.

The possibility of Gorbachev's failure was the subject of a CIA study by the Office of Soviet Analysis (SOVA).⁴⁷ The report, "Gorbachev's Domestic Gambles and Instability", released in September 1989, was concerned that both instability related to rising nationalism and the postponement of price reforms and "marketization" posed serious threats to the long term political survival of the Soviet leader.⁴⁸ The report states that,

"[b]y putting economic reform on hold and pursuing an inadequate financial stabilization program, Gorbachev has brought Soviet internal policy to a fateful crossroads, seriously reducing the chances that his rule — if it survives — will take the path toward long-term stability. Over the short haul, there appears to be a lack of competence among his advisers in the area of monetary and fiscal policy."⁴⁹

A National Intelligence Estimate published in November 1989 was more optimistic about Gorbachev's chances, describing his position as "relatively secure" and predicting that he would "maintain the present course, intensifying [the?] regime while making some retreats".⁵⁰ Given their relatively confident view of Gorbachev's intentions but their somewhat doubtful expectations for his success, the American administration decided "to lock in as many agreements as possible that would endure if a change of leadership occurred".⁵¹

This strategy led to a number of important successes for the Americans in 1990; most notably, East and West Germany were reunited, and NATO and Warsaw pact leaders signed a treaty on Conventional Forces in Europe (CFE). As the year progressed, however, the situation in the Soviet Union grew dire. In meetings with West Germany's Helmut Kohl in May, Gorbachev suggested that the USSR would need \$12 billion in credits from the Western World.⁵² In March, rumours circulated that Moscow had placed a specific price, \$34 billion in hard currency, on Lithuania's independence.⁵³ Bush acknowledged that Gorbachev

⁴⁶ Ibid.

⁴⁷ Fisher, *op. cit.*, p. xix.

⁴⁸ Fisher, *op. cit.*, p. 28.

⁴⁹ Ibid.

⁵⁰ Ibid. p. 51.

⁵¹ Ibid. p. xxi.

⁵² Bush and Scowcroft, *op. cit.*, p. 270.

⁵³ Beschloss and Talbott *op. cit.*, p. 194.

faced increasing economic problems, but “could not guarantee loans to the Soviets unless there was a change in the Baltic situation”.⁵⁴ At the Houston Summit in July, G7 leaders offered Moscow moral encouragement, technical aid, and the promise of a major international study of the Soviet economy (to be completed by the IMF and other economic organizations) as a prerequisite to any financial aid.⁵⁵ Historians Michael Beschloss and Strobe Talbott describe it as “a polite but thinly disguised rejection of the kind of large-scale, concrete assistance Gorbachev was looking for”.⁵⁶ In a press conference following the meeting, Bush argued that no promises for financial aid should be made until more significant economic changes, as well as reductions in missile systems and aid to Cuba, was complete.⁵⁷

In the latter half of 1990, the United States became focused on the conflict in the Persian Gulf. Although this issue took up most of their time, Bush’s administration became increasingly anxious about the situation in the Soviet Union. Scowcroft came to see Gorbachev as a leader caught between his dreams of reforming his country and his desire to keep it intact. Facing attacks from both conservatives and reformers, he had to negotiate simply “to remain in control of the process he had set in motion. His priority became *de facto* self-preservation rather than pursuit of principled and thorough reform”.⁵⁸ Despite the significant changes in foreign policy in 1990, Scowcroft believed Soviet economic reforms remained “generally superficial”.⁵⁹

One of Gorbachev’s close advisors, Stanislav Shatalin, and Russian economist Grigory Yavlinsky proposed a five-hundred-day plan for economic reform, although the time frame was more an ideal goal than an imperative restriction.⁶⁰ At the Helsinki Conference in September, the Soviet leader claimed to have adopted the plan, but at the end of the year, had still not seriously begun implementation.⁶¹ Shevardnadze’s sudden resignation in December did little to build confidence. Those reformers left in power were now being led by

⁵⁴ Ibid. p. 270.

The Soviet leader opposed the March 11 declaration of independence by Lithuania, and in April threatened an embargo. In early May, the Latvian parliament had followed suit with its own declaration of independence, which was similarly declared illegal by Gorbachev.

⁵⁵ Beschloss and Talbott op. cit., p. 237.

⁵⁶ Bush and Scowcroft, op. cit., p. 237.

⁵⁷ George Bush (Interview with Soviet media) 1991. Remarks and Exchange with Soviet Journalists on the Upcoming Moscow Summit, *Presidential Papers*, George Bush Presidential Library and Museum, 25 July 1991.

⁵⁸ Bush and Scowcroft, op. cit., p. 493.

⁵⁹ Ibid, pp. 493–4.

⁶⁰ Beschloss and Talbott op. cit., p. 265.

⁶¹ Bush and Scowcroft, op. cit., p. 494.

Boris Yeltsin, and were skeptical of Gorbachev's commitment.⁶² From the other side, conservative forces were discouraging a faster pace to reforms and demanding the repression of the independence movements in the Baltic and Caucasian states.⁶³ A violent crackdown on protesters in Vilnius in January 1991 did not bode well for the future.⁶⁴ Bush responded by sending Gorbachev a written warning that the USSR would not be awarded special associate membership in the Bretton Woods institution if this kind of violence continued.⁶⁵ Dick Cheney commented that "the central government [was] increasingly influenced by the military and the security services" which left "no prospect for a permanent transformation in U.S.-Soviet relations".⁶⁶

The situation deteriorated further during the spring. A CIA report entitled "The Soviet Cauldron" asserted that "Gorbachev has gone from ardent reformer to consolidator" and that his "credibility has sunk to near zero".⁶⁷ The Soviets began to backpedal on the CFE treaty, claiming exemptions and demanding a renegotiation. At the same time Russian coal miners began a strike. The March 17 referendum on a treaty for a new Union was boycotted by Georgia, Armenia, Moldova and the three Baltic republics. In Russia, Boris Yeltsin had grown enormously in popularity.⁶⁸ But at this stage, the American administration paid little attention to the conflict between Gorbachev and Yeltsin. Bush's March 17 diary entry reads: "My view is, you dance with who is on the dance floor — you don't try to influence this succession, and you especially don't do something that would [give the] blatant appearance [of encouraging] destabilization".⁶⁹ Scowcroft later asserted that he "viewed Yeltsin's actions and statements more as those of one republic president among several participating in a growing effort to wrest greater political and economic autonomy from the center".⁷⁰

In April, Gorbachev appeared to be making some headway in resolving these problems. He met with the leaders of nine republics and convinced them to honor their economic agreements as part of the Union in return for greater influence in

⁶² James A. Baker, III, *The Politics of Diplomacy: Revolution, War and Peace, 1989–1992*. G. P. Putnam's Sons, New York, 1995, p. 401.

⁶³ Bush and Scowcroft, op. cit., p. 495.

⁶⁴ Baker, op. cit., p. 475.

⁶⁵ Bush and Scowcroft, op. cit., p. 497.

⁶⁶ Ibid.

⁶⁷ Fisher, op.cit., p. 112.

⁶⁸ Oberdorfer, op. cit., pp. 451–2.

⁶⁹ Bush and Scowcroft, op. cit., p. 500.

⁷⁰ Ibid.

⁷¹ Ibid, p. 497.

the government.⁷¹ Gorbachev sent a letter to Bush indicating he was winning over the Soviet military on the subject of the CFE treaty.⁷² Economically, things were also improving. The Supreme Soviet passed legislation allowing easier emigration, which enabled President Bush to waive the Jackson-Vanik amendment to the 1974 trade act that had heavily restricted trade with the Soviet Union.⁷³ Yet Bush remained wary of committing his country to sending financial aid to Moscow, at least not until he saw real movement towards a market economy. In his memoirs, Bush remarks: “I had seen no evidence that even basic economic changes were being implemented. There were other problems, such as poor creditworthiness. In my view, the Soviet Union suffered more from economic inefficiencies and poor priorities than from lack of money”.⁷⁴

A significant difficulty lay in trying to draw up a clear plan for Soviet reform and Western aid. A group of academics, including Yavlinsky, author of the 500-day plan, and Graham Allison and Robert Blackwill of Harvard, promoted their “Grand Bargain” idea, which proposed significant aid (\$15–20 billion per year until 1993) in return for specific reforms by Moscow.⁷⁵ In April, the new Soviet Prime Minister, Valentin Pavlov, released his “anti-crisis plan” (ACP) on reform measures, which, according to Beschloss and Talbott, “paid lip service to various goals favored by both radical reformers and Western governments” but was “short on specifics and had as an immediate effect the strengthening of the central government’s authority”.⁷⁶ The American administration remained skeptical of both plans, but in May, Bush made a point of mentioning Yavlinsky’s ideas to Gorbachev, hoping to prod him toward faster reforms.⁷⁷ As a result, the Russian economist was included in a delegation led by Yevgeny Primakov that met with Bush to discuss economic reforms. Primakov’s consistent downplaying of Yavlinsky’s ideas during the meeting left the President with the clear understanding that the more determined reformist held little sway with Gorbachev, and that the whole reform program was not yet clearly organized. The episode gave Bush a “splendid new reason” to further delay sending aid to Moscow.⁷⁸

An aid package was simply a risky investment for the United States. A national intelligence estimate published in July 1991, suggested that significant

⁷² *Ibid.*, p. 501.

⁷³ *Ibid.*

⁷⁴ *Ibid.*

⁷⁵ Beschloss and Talbott, *op. cit.*, p. 382.

⁷⁶ *Ibid.*, p. 383.

⁷⁷ *Ibid.*

⁷⁸ *Ibid.*

systemic changes were probably coming, and likely without significant violence, though it held out the real possibility of violent fragmentation.⁷⁹ Notably, however, the estimate suggested that the Soviet economy would go into sharp decline “no matter what economic program is adopted”.⁸⁰

Nonetheless, Gorbachev’s requests for aid were persistent and became more public. In his Nobel Prize lecture on June 5, he stressed the need for the G7 to adopt “a joint program of action” which could help Moscow take “vigorous steps to open the country up to the world economy through ruble convertibility and acceptance of civilized “rules of the game” adopted in the world market, and through membership in the World Bank and the International Monetary Fund”. Gorbachev highlighted the responsibility of the G7 to provide a “joint program of practical actions” to ensure the success of Soviet *perestroika*. The leader of the Soviet empire argued that the Soviet *perestroika*’s success depends on the world community’s *perestroika*, meaning the acceptance of the Soviet Union into the world community. What the Soviet Union deserved, according to Gorbachev, was “a right to count on large-scale assistance to bringing about its [*perestroika*’s] success”.⁸¹ Still headed by Mikhail Gorbachev, the weakened Soviet Union had appealed to the powerful G7 members to accept the Soviet membership application as an acceptance of a new phase of international cooperation.

Russia and other Soviet Republics started to call for sovereignty and independence from the Soviet Union. The populist appeals for ending the formal reign of the Soviet Union were mounting in Russian streets, fueled by power hungry elected Russian President Boris Yeltsin. As the embattled leader of the Soviet Union was increasingly losing support at home, Gorbachev turned to the international community for both support of his continued leadership and for recognition of his reform agenda. One such perceived prize of international recognition would be IMF membership. To achieve this, Gorbachev turned to the Soviets’ greatest adversary, the United States, for support. Gorbachev sent yet again the Soviet application to join the Fund to the G7 members before their annual meeting. According to US President Bush, the second Soviet application to join the Fund came as a “surprise”. The Americans knew Gorbachev wanted full membership in the IMF, but doubted the Soviets could contribute the necessary capital to the fund.⁸² The US President George Bush instructed his

⁷⁹ Fisher, *op. cit.*, pp. 124–39.

⁸⁰ *Ibid.*

⁸¹ Mikhail Gorbachev, *Nobel Lecture in Oslo*, 5 June 1991b, in “Gorbachev Links World Peace”, *Perestroika, Current Digest of the Soviet Press*, XLIII (23), 10 July 1991.

⁸² Bush and Scowcroft, *op. cit.*, p. 503.

Secretary of Treasury Brady to take a proposed special association application to the IMF and to other international financial institutions.⁸³ The option of “special associate” status — with technical but no financial aid — was again held out as the only possibility for membership.

Soviet media reported that Gorbachev had sent economist Grigory Yavlinsky to Washington; at the same time Gorbachev made his speech to the Nobel committee in Oslo. Yavlinsky, with Harvard’s Graham Allison, devised a 52-page proposal entitled *Window of Opportunity* that was more loosely labeled a proposed “Grand Bargain” between the West and East. Yavlinsky was seeking a “Marshal-plan” like arrangement from the United States and other G7 members that included both an economic reform plan and an application to join the IMF. According to US official comments in the US media, Yavlinsky’s reform plan was still not ambitious enough and was underpinned by an enduring Soviet economic ideology, only laced with capitalist terminology. American officials were less than impressed with Gorbachev’s reform proposals.⁸⁴

The issue came to the fore in planning the upcoming G7 meeting in London. Allison and Blackwill suggested that Gorbachev might be welcomed with a seat at the table.⁸⁵ The Soviet leader liked the idea, but G7 members were unsure whether or not he should be invited. It would be embarrassing for everyone concerned if Gorbachev used the meeting to ask for aid and was publicly refused.⁸⁶ Canadian Prime Minister Brian Mulroney was hesitant, but felt British Prime Minister John Major, host of the meeting, should have the final say.⁸⁷ Major opted to invite Gorbachev as a special side-item, but not as part of the main meeting.⁸⁸ As the meeting approached, Bush worried that G7 leaders, when faced with Gorbachev’s pleas, might promise more financial aid than agreed upon earlier.⁸⁹ “If we put no conditions on aid, we would all waste resources and do

⁸³ George W. Bush, “Excerpt of a White House Fact Sheet on the Soviet Union and International Financial Institutions”, *Presidential Papers*, George Bush Presidential Library and Museum, 12 December 1990.

⁸⁴ *Washington Post* (comments) 1991, in “Is a Marshal Plan for the USSR Coming?”, *Digest of the Soviet Press*, XLIII (22), 3 July 1991.

⁸⁵ Beschloss and Talbott op. cit., p. 383.

⁸⁶ Bush and Scowcroft, op. cit., p.503.

⁸⁷ Ibid.

⁸⁸ Bush and Scowcroft, op. cit., p. 504.

⁸⁹ Ibid.

⁹⁰ Ibid.

nothing to encourage the Soviets to transition to a market economy”.⁹⁰ Bush was also concerned about continued Soviet aid to Castro in Cuba.

Primakov and Yavlinsky met with Gorbachev to work out a new plan, but when Yavlinsky received the draught of letter to G7 leaders written by Primakov on his behalf, he found it watered down: far closer to Pavlov’s ACP than his 500-day plan. Feeling deceived and used, he decided he would not appear as part of the delegation in London.⁹¹ On July 12, just a few days prior to the meeting, Primakov delivered a 23-page letter to G7 leaders outlining Gorbachev’s proposed reforms.⁹² John Major suggested that the proposal still looked too much like Pavlov’s conservative ACP.⁹³ Japanese Prime Minister Toshiki Kaifu felt Gorbachev’s letter “raised more questions than it answered and left unclear whether the Soviet leadership fully understands what is entailed in moving to a market-based economy”.⁹⁴ Mulroney was equally dismissive, stating “I do not believe that you will see either miracles or blank cheques from the G7 summit” French and German leaders seemed more willing to offer hope.⁹⁵ French president Francois Mitterrand sent his own letter, urging Western leaders to increase financial assistance to the Soviets.⁹⁶ Similarly, German Chancellor Helmut Kohl suggested he would use the meeting to argue for more help for Moscow. As it turned out, the G7 members made few promises to the Soviet leadership, asking to see a more comprehensive reform plan and suggesting technical aid rather than financial aid.⁹⁷ The G7 agreed that the Soviet economy was still problematic — hyperinflation was looming, foreign investment was not yet interested in the Soviet economy, and the ruble was still not convertible to other currencies-and so special association status would help provide the Soviets with technical assistance, albeit short of providing multilateral financial assistance.

Soviets are rebuked and Russia is welcomed into the Fund

⁹¹ Oberdorfer, op. cit., p. 455.

⁹² Peter Norman, et al. “G7 members critical of Gorbachev’s reform plans”, *Financial Times*, 15 July 1991.

⁹³ Ibid.

⁹⁴ Ibid.

⁹⁵ Ibid.

⁹⁶ *Financial Times*, op. cit.

⁹⁷ Bush and Scowcroft, op. cit.

⁹⁸ Beschloss and Talbott op. cit., pp. 411–2.

On July 23 1991, the IMF and World Bank officially announced that they had received formal requests for full membership from the Soviet Union but had decided to reject the “pre-mature” applications.⁹⁸ While Gorbachev tried to maintain power at home after briefly being jailed in August, the domestic economic and political situation continued to worsen. On the heels of Gorbachev’s political disarray, Russian President Yeltsin announced broad economic reforms similar to Poland’s big bang policies that had previously delighted the IMF and the international financial community at large. While the Fund welcomed Yeltsin’s more ambitious economic reform program, it remained hesitant to accept Gorbachev’s application. The Fund, in effect, denied the Soviet application for membership but accepted the Bush plan of “association status” instead. In October 1991, the Soviet Union’s “association status”, created for this special case, was signed between Gorbachev and the IMF’s Managing Director Michel Camdessus. Camdessus highlighted that the Soviet association was “For the Bretton Woods Institutions, a long-awaited opportunity for them to become truly universal and to serve the entire family of nations with a renewed sense of commitment....”⁹⁹

In the Soviet Union, national newspapers interpreted the IMF rebuke as a sign of incomplete confidence in Soviet economic reforms. *Pravda* reported that “...our Union of sovereign republics will not be a full member of the International Monetary Fund for now. Our collapse has reached such a degree that it is simply dangerous for Western financiers to deal with us. Secondly, they feel that we have done little in recent years to reform the economy...” The IMF staff would have an in-depth look into the state of the Soviet economy on their visit a month after Soviet association status had been formalized. For twelve weeks, the IMF staff, including a permanent IMF resident representative assigned to Moscow, consulted with Soviet government and economic officials to prepare a report to the Executive Board. The Deputy Managing Director also visited Moscow and participated in the IMF staff analysis.

The political climate in the Kremlin remained tenuous as Gorbachev continued to lose legitimacy and his hold on power. On Christmas Day, Gorbachev resigned his post and paved the way for the formal dissolution of the Soviet Union. Within two days after Gorbachev resigned, the Russian Embassy in Washington, DC contacted the IMF’s Managing Director’s office suggesting that “...the status of special association of the USSR in the

⁹⁹ Michael Camdessus, Presentation of the Forty-sixth Annual Report, 15 October 1991. *International Monetary Fund Summary of the Annual Meeting of the Board of Governors*. International Monetary Fund. Washington, DC, 1991.

¹⁰⁰ Russian Embassy letter to Michel Camdessus, Quoted in *Executive Board Minutes*, International Monetary Fund, Washington, DC, 27 December 1991.

International Monetary Fund is [to be] continued by the Russian Federation".¹⁰⁰ The Russian Federation had similarly requested that it replace the Soviet Union at other international organizations, notably at the United Nation's Security Council and the World Bank group.

The IMF Executive Board met on December 27 to discuss the Russian Federation's request and decided that since the Soviet membership status included Republics now vying for independent membership, it would be "...easier for the President of the Russian Federation to submit a new membership application, which might raise different issues from those concerning the special association agreement".¹⁰¹ The Fund's Deputy General Counsel noted that a new Russian membership application, as opposed to Russian inheritance of the Soviet special "association status", "would certainly be in the interest of the Russian Federation itself..."¹⁰² The IMF Executive Board was signaling to the aggressive reform-minded Russian President that a new IMF membership application might be accepted.

At the Fund, G7 and European Executive Directors lobbied for special treatment for Russia, while IMF Management and staff remained worried that the Russia's financial health was just as problematic as the former Soviet Union and that caution was needed. Johann Prader, Alternate Executive Director from Austria, noted "Russia...has been treated as a special case from the very beginning. I must say that most of the smaller European constituencies were quite sceptical 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."¹⁰³ IMF Managing Director, Michel Camdessus, however, argued that Management and the staff were still concerned:

"...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

¹⁰¹ *Executive Board Minutes*, International Monetary Fund. Washington, DC, 27 December. 1991.

¹⁰² *Ibid.*

¹⁰³ Johann Prader. "The IMF's role in a changing world and changing markets", 1999.

¹⁰⁴ *IMF Minutes*, Executive Board. Meeting 92/85, IMF, Washington, DC, 8 July 1992.

would not otherwise be possible. Of course there was criticism that we were taking an enormous risk by not altering our traditional principles.”¹⁰⁴

Russia would, in fact, use its political might and the desire of the G7 to have Russia join the IMF as leverage in its negotiations with IMF staff over its quota and place at the board.¹⁰⁵ The outcome would be seat at the prestigious IMF Executive Board table and an overrepresented IMF quota.¹⁰⁶ At the Fund, the G7 ensured that Russia attained the geopolitical clout it desired. This also fulfilled the IMF members’ desires to have a universal IMF.¹⁰⁷ A number of Executive Directors followed their capitals’ instructions to ensure that Russia received a 3% quota allocation — this would place Russia’s quota share below Italy which was not by coincidence the last of the G7 states in the quota pecking order at the Fund.¹⁰⁸

Conclusion and Implications for Understanding IO Memberships

The Soviet Union’s departure from the IMF has always been a peculiarity for IMF historians. By the late 1990s, the Soviet Union wanted to now join the IMF. Lead by Mikhail Gorbachev, the Soviet Union was undergoing political, economic, and social reforms. Perestroika was an ambitious plan for Gorbachev, but represented limited reforms to the Western world. When Gorbachev applied for membership in the IMF, the G7 states and the United States in particular rebuked his membership application and instead offered him limited association status. Unhappy with the Western economic leaders’ decision, Gorbachev appealed to them again to accept his country’s membership into the Bretton Woods institutions. Lead by George Bush, the G7 ignored Gorbachev’s calls and quietly watched the disintegration of the Soviet Union. Merely days after Gorbachev resigned, the G7 welcomed Russia’s more aggressive reformer, Boris Yeltsin, into the IMF.

The case demonstrates the value in constructivist understanding of IO membership. Realism and neoliberal intuitionists could not account for why the Soviet Union would be rejected and then merely days after Russia would be accepted into the Fund. There was no change in the distribution of international power, no change in the economic fundamentals of the Soviet Union and

¹⁰⁵ Bessma Momani, “Another Seat at the IMF Table: Russia’s IMF Executive Director”, *International Journal*, Fall, 2007.

¹⁰⁶ *Ibid.*

¹⁰⁷ Based on personal interviews with former Fund Executive Directors, US government officials, and persons close to Fund Management conducted in Washington, DC on May 3 and 5, 2006.

¹⁰⁸ Based on a telephone interview with a former Fund Executive Director, on May 10, 2006.

Russia, and no tangible explanation for why one was favored over the other. Materialist-rationalist arguments and tools are not helpful in understanding the case presented.

Constructivism tells us that identity, values, and ideas matter. Here, the case exemplifies the US and IMF staff impression that the Soviet Union, and in particular Gorbachev, were not going to reform and follow the rules of the free market system that is propagated by the IMF. Constructivism helps us understand, moreover, why Gorbachev was also keen to join the IMF: to enhance his own international reputation and legitimacy. The Soviet Union's acceptance into the IMF would demonstrate that it would be accepted as part of the global community. The IMF and more importantly the G7 had perceived the Gorbachev regime and perestroika plan to be weak on economic reforms. The Soviet Union, under Gorbachev's plans, was not like-minded with the G7. Russia's Boris Yeltsin and his economic team, on the other hand, were viewed as true free-market reformers and were therefore welcomed into the IMF merely days after the fall of the Soviet Union and to the chagrin of the once celebrated Gorbachev.

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