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# THE THIRD WORLD AND DECISION MAKING IN THE INTERNATIONAL MONETARY FUND

## The Quest for Full and Effective Participation

TYRONE FERGUSON

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international economic system but also in the running of the system itself.

*Georges Abi-Saab*
*Professor of International Law*
*and Organization*
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*Geneva*
*November 1987*

the real decision-making power remains exclusively in the same hands, whether they are called the Group of 5, 7 or 10/11, and whether they meet within the Fund or in other venues such as the meetings of the major industrial countries or at the Bank of International Settlements.

Based on exhaustive research and a masterly grasp of a rather nebulous and secretive environment, Tyron Ferguson's analysis expertly guides us through the vicissitudes of the process of decision-making within the Fund in general. He describes clearly and in great detail the origins and evolution of the claim of Third World countries for a more meaningful participation in this process, before examining its actual functioning in a number of issue areas of particular interest to the Third World.

Initially, the IMF articles of agreement fulfilled the double role of an international monetary code of good conduct and the constitution of a short-term credit facility helping member States in difficulty to abide by the rules of the code. The decisions of the Fund's organs dealt either with the management of the system, i.e. the application of the code as it stood, or with the evolution or, more radically, the changing of the system itself.

The study demonstrates in a very convincing manner, that when it came to the mere management or application of the system, the Fund organs gradually tightened their requirements in terms of internal adjustment and surveillance, through what came to be known as 'conditionality', a price which often proved to be socially and politically exorbitant, but which developing member States had to pay in order to obtain the Fund's certification of creditworthiness. Conditionality has been and still is the most contentious issue between the Fund and its developing member States.

The controversy over 'international liquidity' and the introduction of the SDRs provide a very good example of the struggle over the process of decision-making. The Group of 10 wanted to limit the creation of new liquidity to themselves. The developing countries, with the support of the UNCTAD, fought to establish a link between the creation of new liquidity and development financing. In insisting on locating this new function within the Fund, they found a strong ally in the Fund's bureaucracy, but not for their claim for a share of the new liquidity pegged to their needs rather than to their quotas. And it was this last solution that finally prevailed. A measure of recognition of the special position and needs of the developing countries, was achieved, however, through the creation and the gradual evolution of the CFF. Both the SDRs and the CFF were relatively minor or rather normal developments of the system. But when it came to radical decisions or actions entailing the total discarding of the system and its replacement, there was no room for any meaningful participation.

The merits of Tyron Ferguson's excellent study are manifold: the firmness of analysis, the clarity of thought and exposition and the numerous insights it provides into the functioning of the IMF, the most hermetic of contemporary international organizations. But its greatest merit is that through an in-depth and penetrating study of a very (perhaps the most) difficult case, it admirably illustrates the present possibilities, limits and obstacles facing the Third World in its quest for a fairer share not only in the final product of the

# Foreword

These are times of great economic turbulence, of increasing material interdependence paradoxically running parallel to a growing resort to selfish unilateral action (or inaction). The resulting feeling of insecurity and vulnerability to environmental conditions and of loss of control over one's economic destiny, particularly among the smaller and weaker members of the international community, explains their strong claim for participation in the taking of decisions on common economic problems that affect them directly and often severely; a claim that they perceive not only as an imperious necessity but also as a requirement of elementary justice.

Indeed, this claim flows directly from the first principle of the Charter of the United Nations, that of 'sovereign equality' (Art. 2, para. 1), which does not only mean that a State is free to act on the international level without having to submit its decisions to another instance: it also means that decisions directly affecting a State cannot be taken without its participation and consent, for this would amount to deciding for it or negating its freedom to decide for itself. Thus viewed, it is an application of self-determination to collective decision-making.

No wonder that the claim for full and effective participation in such decisions is most strongly pressed by the newcomers to the international scene, the Third World countries, who, in spite of their weight, feel excluded or at best marginalized in this context, while, as the weakest members of the community, invariably bearing most of the brunt of decisions taken by the others.

The problem with the process of international decision-making, however, and more particularly when it comes to economic matters, is that it is so diffuse and unstructured that it is almost impossible to seize it and pin it down for purposes of international regulation, except within institutionalized structures.

This is why the author of the present study focuses on the IMF, which has been in this regard the sorest bone of contention. For not only was the initial design of the Fund, with its heavily weighted voting formula, far from perfect in terms of 'full and effective participation' but subsequent developments went even further away from the ideal. First, with the General Agreement to Borrow in the early 1960s the decision-making process passed completely out of the Fund and into the exclusive hands of the Group of 10. A decade later a crucial decision was taken unilaterally by the United States in 1971, when it severed the link between the dollar and gold, thus scrapping the Bretton Woods monetary system of fixed exchange rates and writing off most of the monetary reserves of Third World countries in the process.

Similarly, in the effort to stabilize the actual precarious situation and in the search for a new international monetary order, and in spite of symbolic gestures towards associating Third World countries in the process (such as the creation of the Group of 20, then the Interim Committee of the Board of Governors),

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# Introduction

The multilateral institutional process that was established after the Second World War is currently facing a deep-rooted crisis.[1] While not all institutions are affected to the same degree by the erosion of confidence in multilateral cooperation among certain major countries and groups of countries, the two principal systems of post-war institutions—the United Nations and the Bretton Woods—have both felt its impact.

On the one hand, the United Nations system has come under increasing attack, since the mid-1970s, by several Western, industrialized countries—a major target of their dissatisfaction being the dominant control, summed up in the charge of tyranny of the majority, now exerted by developing countries. This control has resulted from the observance in the United Nations institutions of the principle of the sovereign equality of states. This factor has allowed the developing nations to use their overwhelming numerical majority to obtain formal endorsements of their preferred policies in areas as diverse as politics, economics, culture, human rights, science and technology, to name just a few. Developed countries, which bear the major financial responsibility for the functioning of these organizations, have thus witnessed, in the case of the United Nations, an overturning of the ideological basis of the post-war institutional structures they were largely instrumental in creating and its take-over by the developing member-countries of these institutions. In the context of their own decision-making powerlessness, when measured purely in terms of voting power, the developed countries had found it largely impossible to withstand this coherent assault of the developing countries.

On the other hand, the Bretton Woods institutions have, at one time or another, been the target of attack from the group of developing or Third World countries. A pivotal explanation for their discontent has to do with the ordering principles of Bretton Woods decision making—the weighted voting process—and the resultant effect of a less central role for these countries in the decision-making process, when compared with their situation in the United Nations system.

In other words, both major sets of post-war institutional processes have been found wanting at various times by either developed or developing countries, and a crucial, common basis for discontent has been the decision-making structures of these international organizations. More profoundly, however, the crisis of multilateralism reflects the collapse of consensus as to how best international relations, in its broadest sense, should be organized. The struggle over institutional processes, therefore, is merely symptomatic of a wider struggle over the substantive bases for a reconstruction of the international political, legal, economic, information and cultural orders, in the wake of the fundamental changes that have taken place in post-war international relationships.

In an effort to better understand the nature and scope of the prevailing multilateral crisis, the present study will seek to examine the situation with regard to one such institution, the International Monetary Fund (IMF). This institution, for reasons that will become apparent in the course of the analysis, has historically been the more controversial of the Bretton Woods institutions—a controversy that has deepened substantially during the past decade. The study will therefore focus on the criticisms, demands and achievements of the Third World countries in relation to the operations and functioning of the IMF.

The concept of a group of countries known as Third World clearly creates certain definitional and analytical difficulties.[2] While accepting the crucial importance of such questions, this study starts off from the position that the nomenclature 'Third World' is a useful delimiting category in the context of the practice of international relations generally, and the narrower framework of its study. The fact is that 'Third World' has come to define a sub-group of countries in the international system—the countries that participate in neither the coherent, Western liberal arrangements nor those of the Eastern socialist countries.

Unlike the latter two sets of countries, the Third World countries are not characterized by any definitive, coherent ideology of socio-political or economic organization. Yet, increasingly in the post-Second World War period, they have found it politically advantageous to create organizational mechanisms, at various levels, to seek a concertation of their international behaviour. Moreover, they do have several things in common. They have a similarity of historical experience of colonial domination by various Western industrialized countries and a contemporary condition of relative deprivation and poverty, *vis-à-vis* the latter. They are generally seen as countries now in the process of nation-building and economic development.

While, at the present time, several of them have succeeded in moving out of pervasive poverty, they still prefer to remain identified—at least in terms of coordinating mechanisms—with the other, less well-off developing countries. Whether it is the newly industrializing countries (NICS) or the OPEC countries, there still remain fundamental disparities in economic well-being, as well as industrial and technological development compared to the developed countries, and a high level of external economic dependence. Particularly with respect to the OPEC countries, by and large, their improved status in the international economy is founded on a very fragile basis. Many of the OPEC countries, on the basis of simple per capita income, outrival the majority of developed nations. But such a comparison hides the fundamental reality of the monocultural basis of this economic achievement, and thus its essential fragility and non-sustaining nature, dependent as it is on high prices for their petroleum products.

This study accepts that there is no such thing as a monolithic Third World. On the contrary, the analysis will point on many occasions to the immense heterogeneity that characterizes this group of countries. However, the fundamental justification for use of the 'Third World' appellation is the subjective identification of these countries with the status of Third World, rather than the objective factors that would result in a differentiation among them. Moreover, its use allows us to examine the flaws and constraints, if any, that go along with an approach that groups these countries together as an undifferentiated whole.

Overall, the socialist countries are excluded from this analysis. This relative omission was not a question of choice, but rather derived from the fact that not many of these countries are members of the Bretton Woods institutions,[3] and the few that are, have only assumed membership in recent years. Where, however, their positions on international monetary issues and the IMF, as manifested outside its institutional process, are apposite, they will be alluded to.

Finally, the International Monetary Fund operates a host of different financing facilities. While many of them are specifically dealt with in the context of the analysis, others have not been, even though passing references to them are made. Appendix 1, therefore, provides a brief outline of some of the important facilities to which reference has been made.

## Notes

1. One report refers to it as 'the creeping paralysis that afflicts multilateralism'—See Committee for Development Planning, 'Report on the Twenty-first session and Resumed Twenty-first session' (Geneva, 19–21 November 1984 and New York, 20–23 April 1985), *Official Records*, Economic and Social Council, 1985, Supp. No. 9, New York, United Nations, 1985, p. 4, para. 19.
2. For a discussion, see Leslie Wolf-Phillips, 'Why Third World?', *Third World Quarterly*, 1, No. 1, January 1979, pp. 105–16.
3. Another consideration is that the socialist countries have attributed the blame for the economic under-development of the Third World countries to past colonial and imperialistic domination by major Western countries. In light of this historical responsibility, the latter countries are required to make substantive concessions to the demands of developing countries: for a discussion, see Marian Paszynski, 'The Concept of New International Economic Order and the Socialist Countries', *Development and Peace*, 1, Autumn 1980, pp. 26–41.

# Part I

## The Setting of the Investigation

# Chapter 1
# The nature of the inquiry

## 1. The specification of the problem

A central feature of prevailing international economic relations is what has come to be popularly known as the North–South issue,[1] encompassing a concerted effort on the part of the developing countries to seek fundamental changes in the structures, institutional processes and substantive areas of concern of the post-Second World War international economic order. The North–South issue became globalized at the beginning of the 1970s[2] and remains today a prime contentious area within the international system.

If the North–South division suggests, in however unrefined terms, the geo-political dimensions of the problem, then the concept of the New International Economic Order (NIEO) sums up the substantive aspects of Third World demands and the underlying aim of these countries to effect a re-ordering of international economic relationships to secure greater advantages and benefits for themselves. The starting-point of the research then is the fact of the North–South conflict.

The agenda of change that underpins the NIEO—and the ultimate realization of change—cannot be divorced from the overall institutional setting within which the struggle has been taking place. Institutions are the arena for the recognition and reconciliation of the grievances and competing visions of the membership.[3] But that reconciliation—the process of negotiation of change—is, in the final analysis, dependent on the decision-making structures within institutions.[4] It is this awareness by Third World countries of the pivotal role of the decision-making process[5] that has made the whole question of institutional reform of the post-war international economic organizations one of their core concerns.

The claim for a right to participate in international decision making regarding economic relations has become a recurring theme of the NIEO process. This claim was enshrined in the major instruments pertaining to the NIEO that were adopted by the UN General Assembly in 1974 and 1975. Thus, Article 10 of the Charter of Economic Rights and Duties of States stipulates that:

> All States are juridically equal and, as equal members of the international community, have the right to participate fully and effectively in the international decision-making process in the solution of world economic, financial and monetary problems, *inter alia*, through the appropriate international organizations, in accordance with their existing and evolving rules, and to share equitably in the benefits resulting therefrom.[6]

In an effort to comprehend the nature of the problem that confronts the developing countries with respect to decision making, the study will examine the relationship between these countries and the decision-making process of the post-war institutional economic order. The study will have a single-institution focus—the IMF. The time-span of the study will be the decade and a half dating from 1970, coinciding as this does—admittedly not in a totally neat temporal frame—with the NIEO campaign of the Third World. It will be necessary, however, to treat in brief the earlier years of the Fund's operations to obtain insights and comparative perspectives on the topic.

The choice of the decision-making process as the central preoccupation of the research is neither accidental nor whimsical. From a historical vantage-point, the management of international systems has from time to time—and particularly when consensuses collapse—foundered on the arrangements relating to decision making.[7] Discontent has usually emanated from two sources: new aspirants to power and status, and newly emergent and small states, both demanding a stake in the taking of decisions. It has been fuelled by the fact that particular historical systems have tended to be governed by a privileged elite of states who assume the responsibility for international management on the basis of their pre-eminent situation in the configuration of state-forces internationally. This tendency has been especially marked at the level of the international political system.

The Third World countries in contemporary times have challenged the monopolization of decision making by a limited group of developed countries in the political, legal, cultural and economic domains. They have argued for (i) the right to participate and (ii) full and effective participation in the taking of decisions in international economic organizations.[8] And the point of departure for this claim has been the juridical equality of states.[9]

Historically, controversy over decision making has been—and continues to be—rooted in the glaring contradiction between the fundamental governing principle of international relations, that is the sovereign equality of states, and the fact of the inequalities among states in their material circumstances and capacities for political influence. The critical problem, then, that has beset international regimes seeking to construct decision-making structures mutually acceptable to national sovereignties is the reconciliation of the principle of sovereign equality with the reality of the material facts of life. This problem has been met—if not resolved—at different times by decision-making modalities that, on the one hand, conceded the formal equality of states, while granting recognition, on the other, to the reality of differential state power through such practices as the veto and the weighting of votes.

In so far as developing countries are concerned, the question therefore arises as to whether the intent is in effect to translate the principle of the juridical equality of states, in operational terms, into the strict observance of the rule of an equal voice for every state in decision making, as reflected in the one state/one vote method. The answer to this question will have to be found in a rigorous analysis of the origins of the claim, its legal foundation and the evolving norms governing the issue in the IMF.

Adherence to formal equality implies, firstly, a right to participate in the taking of decisions.[10] Oppenheim has further posited that the equality of states in international law has several other consequences, including the fact that 'legally ... the vote of the weakest and smallest state has ... as much weight as the vote of the largest and most powerful.'[11] Within such a conception, then, insistence on adherence to the sovereign equality of states would signify no differential voting power among the international membership.

It is the thesis of this study that the intent of Third World countries was not to insist on the strict application of any such interpretation of the principle in so far as their participation in the decisional process of the IMF was concerned. Rather, they have been keenly conscious of a third consideration that Oppenheim had alluded to, that is, the crucial distinction between legal equality and political equality: 'the enormous differences between states as regards their strength are the result of a natural inequality which ... finds its expression in the province of policy. Politically, states are in no manner equals.'[12] These countries, it will be argued, in recognizing the dilemmas created by the principle of equality in a world of material inequalities have sought to give it substantive meaning through the implementation of other standards of participation when it involved intergovernmental economic organizations with action-oriented mandates.

The study will thus endeavour to pinpoint and elucidate these other standards of participation by which developing countries have tried to obtain a satisfactory share in the decision-making process of the IMF. This will involve a two-fold process of measurement. Firstly, by looking at the actual formal and informal dimensions of decision making, an effort will be made to see whether changes have been put into place, with a view to giving developing countries a greater share of decision making. Such an approach will allow us to examine rules and standards of decision making that attempt to give content, from the vantage-point of these countries, to the principle of full and effective participation.

At the second level, the analysis will shift to a consideration of how the procedural aspects of decision making have affected the ways in which substantive concerns have been dealt with and resolved in the IMF. Through an in-depth examination of certain strategic issues for developing countries, an attempt will be made to measure policy and programmatic changes in the light of Third World representation thereon to test the effectiveness or otherwise of their decision-making role in the institution.

This approach to decision making facilitates an exploration of the dilemmas posed by change within international organizations—another objective of the research. Organizations are clearly the result of consensuses among the membership—as to what tasks the organization is to perform, how these tasks are to be pursued and the procedural infrastructure to expedite these tasks. When, however, there occurs a disruption of the consensus, it follows that the organization will serve as the battleground for the redefinition of a new consensus. The major time-period of the IMF's operations with which the study is concerned has been characterized by just such a breakdown in the international economic consensus. The effort to reconstruct a consensus has basically pitted the developed against the developing participants in the international economy. The heart of the agenda of the latter group of countries has been one of thoroughgoing change.