

## **Processes of Change in International Organizations**

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## **ABSTRACT**

Although international institutions are a ubiquitous feature of international life, little is known about their trajectories of change. This paper attempts to address this lacuna by examining processes of change in international institutions, in particular the subset of international institutions known as inter-governmental organizations. The purpose of this paper is not to develop a general theory of change in international institutions but rather to develop limited generalizations about causal mechanisms and their consequences. It first examines the rationale and purposes of international organizations -before we can ask how and why particular types of organizations change, we need to understand why they exist in the first place. It then examines the trajectories of change in international organizations by posing three, interrelated, questions. One, what factors drive (or hinder) change in international institutions and organizations and what are the principal instruments and mechanisms that leverage change? Two, what factors explain variations in the pace and direction of change? And three, what are the consequences of change both for the institutions themselves and for their members? Finally the paper outlines a research agenda to develop a broad theoretical framework for understanding causal mechanisms of change in international organizations.

## Introduction

Although international institutions are a ubiquitous feature of international life, little is known about their trajectories of change. This paper attempts to address this lacuna by examining processes of change in international institutions, in particular the subset of international institutions known as inter-governmental organizations (IOs). The purpose of this paper is not to develop a general theory of change in international institutions but rather to develop limited generalizations about causal mechanisms and their consequences. It first examines the rationale and purposes of international organizations - before we can ask how and why particular types of organizations change, we need to understand why they exist in the first place. It then examines the trajectories of change in international organizations by posing three, interrelated, questions. One, what factors drive (or hinder) change in international institutions and organizations and what are the principal instruments and mechanisms that leverage change? Two, what factors explain variations in the pace and direction of change? And three, what are the consequences of change both for the institutions themselves and for their members?<sup>1</sup> Finally the paper outlines a research agenda to develop a broad theoretical framework for understanding causal mechanisms of change in international organizations.

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<sup>1</sup> The paper uses “change” rather than “reform” in order to avoid the latter’s normative implication of an improvement over the status quo. While change is often motivated by a desire to improve matters at least in some aggregate sense, change has complex consequences and, at least in the case of international institutions, it is difficult to demonstrate that change is pareto-superior.

## Rationale and Purposes of International Organizations

International institutions are mechanisms for transnational cooperation and collective action. Institutionalization serves to anchor international cooperation, be it through formal intergovernmental organizations such as the UN and Bretton Woods institutions or less formal arrangements, for example, the GATT (before its formal constitution as the WTO) or the various groupings of countries as in the G-7, G-10, G-22, G-24, G-77. Whether their memberships are inter-governmental or non-governmental, they serve similar purposes: they lower transaction costs for members and produce information; they encourage members to think about their future (“lower their discount rate”); create linkages across issues; and they serve as agents that both create and diffuse ideas, norms and expectations. The rules embedded in the IOs’ charters provide for more stable expectations. Their organizational structures and administrative apparatus provide a durable negotiating forum for direct interaction among members, enhancing iteration and reputation effects. The secretariats of IOs provide consultative and supportive services for their members, which influence the terms of member interactions, help shape understandings, elaborate norms (from human rights to narrow technical standards) and mediate member’s disputes.

While creatures of their members (states in the case of multilateral institutions), IOs have the authority to act with a degree of autonomy (which varies across IOs and over time) in defined spheres. States delegate a variety of functions to IOs in part because they provide domestic cover for activities that may be unacceptable in direct state-to-state form, but more palatable otherwise. As agents, IOs act as sub-contractors for the global

system of states, managing a vast array of operational activities. They serve as trustee or escrow agents as well as allocate scarce resources (with attendant distributional consequences and conflicts). They are arbiters, both in a facilitative and binding form as well as managers of enforcement of rules, either in the form of sanctions, conditionalities, or direct force. IOs also embody, however faintly (and for many, naively), an aspiration for a certain cosmopolitanism binding a global community of states. The shortcomings of individual institutions notwithstanding, IOs have been a successful institutional mechanism of global cooperation in part because they enjoy economies of scale by pooling activities, assets and risks. While IOs processes and the norms they propagate reflect the disproportionate influence of their more powerful members, they also bind the latter's actions to some degree.

In general, international cooperation is more likely to occur the greater the commonality of interests (or the narrower the issue area) across actors (and correspondingly the lesser their conflicting interests), the fewer the number of actors, and the more the “shadow of the future” looms large in actors decision making.<sup>2</sup> Prominent theories of international cooperation share a presumption that interstate bargaining, entailing as it does the investment of time, money, energy and personnel, is inherently costly. The assumption of high transaction costs in the formation of international institutions (whether in the broad “international regime” manifestation or in the narrower sense of international organizations) has led observers to conclude that international institutions are inherently sticky. Were this not the case, the suboptimality of most international bargaining outcomes (of which international institutions are the product),

would encourage governments to perennially negotiate and renegotiate agreements underpinning international institutions.<sup>3</sup>

The “stickiness” of international institutions means that change is gradual and does not occur easily. Indeed, institutional change as a broader phenomenon is invariably incremental, evolutionary, and, in some cases (and to some observers), even glacial. Public organizations are embedded in a complex web of rules. These limit both institutional autonomy to a greater extent relative to private organizations, as well as their access to the different pathways through which private organizations change (for instance mergers and acquisitions). International organizations would seem to lie somewhere in between the two extremes of autonomy enjoyed by private firms and national public organizations, since unlike the latter, they are not embedded in a “thick” institutional matrix that limits autonomy. Within a national context the legislative, executive and judicial branches of government as well as autonomous central bank, all place constraints on the degrees of freedom enjoyed by each other. These horizontal constraints arise because these institutions are embedded within a broader set of rules – namely the national constitution. Since the latter does not have an international equivalent, such horizontal constraints are more limited for international institutions which enjoy greater autonomy vis-a-vis other international institutions, relative to national institutions. Although their autonomy may be more circumscribed in other dimensions because of multiple principals, by playing off their principals against each other IOs can sometimes enjoy a greater *marge de maneuver* than national public institutions.

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<sup>2</sup> John Ruggie, “Multilateralism: The Anatomy of an Institution,” *International Organization*, 46, 1992, pp. 561-98. Lisa Martin and Beth Simmons, “Theories and Empirical Studies of International Institutions,” *International Organization*, 52 (4) Autumn 1998, pp. 729-57.

Consequently, it should not be surprising that intergovernmental organizations (IOs) – the public institutions run by much maligned international bureaucrats – do change and even disappear altogether. One analysis of IOs in the 1980s found that hundreds were created and died during this period. Only two-thirds of the IOs that existed in 1981 were still active in 1992 -- a surprisingly high mortality rate. During this period slightly more IOs were created than were cast off, but most new IOs were created *not* by governments but by other IOs. Emanations -- second generation IOs created through actions of other IOs – are likely to be of less importance than traditionally created IOs but both connect states through a web of shared goals, and institutional rules and commitments.<sup>4</sup> Emanations constituted 70 percent of the population of IOs in 1992, up from 64 percent a decade earlier.<sup>5</sup>

The relatively high rate of mortality of IOs seems at first glance puzzling given the proposition that international institutions are inherently sticky. Three factors explain this. First, the demise of the Eastern bloc and the political and economic travails of Africa led to a decline in IOs from these regions. Second, mortality rates were higher for emanation IOs (“second or third generation”) than treaty IOs (“first generation”) where expectedly issues of stickiness are most apparent. Finally, there is strong survivor bias, i.e. the longer institutions have been around the longer they are likely to exist, as evident from an increase in the average age of IOs from 18.4 years in 1981 to 25.4 years in 1992.

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<sup>3</sup> Kenneth Abbot and Duncan Snidal, “Why states Act through Formal International Organizations,” *J. Conflict Resolution*, 42 (1), February 1998, pp. 3-32.

<sup>4</sup> Examples of second generation IOs include IDA, IFC and MIGA in the case of the World Bank, UNDP and UNCTAD in the case of the UN etc...

<sup>5</sup> Cheryl Shanks, Harold Jacobson, & Jeffrey Kaplan, “Inertia and Change in the Constellation of International Governmental Organizations, 1981–1992,” *International Organization*, Autumn 1996, pp. 593-627.

## Sources of Change in International Organizations

A simple typology of sources of change would seek to distinguish between exogenous and endogenous sources of change. Analytical simplicity aside, the distinction is rarely as sharp, except at the edges. The forces driving change may be exogenous to the system – broad structural changes and shocks in the form of disasters and crises are two important factors. In some cases the locus of change may be endogenous to the system but exogenous to individual actors constituting the system. That is, change is not a choice variable for an individual actor but rather the result of the aggregation of changing preferences and interests of actors – change resulting from competition and changing norms are examples. In other cases, change is endogenous to the system but exogenous to the IO. Leadership and domestic politics in the systemically powerful countries are examples of this source of change although, as we shall note later, the former can also be endogenous to the IO. Finally, the source of change can be endogenous to an IO – institutional “learning” leading to adaptive change is a good example. In general, the greater an IOs institutional autonomy, the greater the likelihood that the source of change is at the endogenous end of the spectrum.

### *Structural Changes*

IOs are embedded in the broader global system, and structural changes lead to “critical junctures” that create distinctively new conditions and pressures for institutional change. Over the last decade, the end of the Cold War, the weakening of the state relative to both civil society actors (such as NGOs) and markets, an acceleration in the



pace of global economic integration (“globalization”), and the informatics revolution have been the most significant changes in the external environment of international institutions. These changes have affected international institutions in somewhat contradictory ways.

Globalization would seem to increase the demand for global public goods. Since international institutions supply global public goods (much as the State supplies national public goods), the increased demand for their services should result in an expansion of IOs. However, this is tempered by other structural changes. Since IOs are creatures of nation states, the relative weakening of states means that the increase in demand for global public goods has been met more by non-governmental organizations instead of inter-governmental institutions. Thus, non-governmental development NGOs now provide more funds for economic development activities and disaster relief than the UN. Global rules and norms are being shaped to a much greater extent by a variety of non-governmental and “hybrid” actors that include state and non-state bodies whose activities range from regulation of myriad financial instruments to environmental issues to land mines.<sup>6</sup> Second, the end of the Cold War and the emergence of the U.S. as the lone superpower, have reduced its incentives to support multilateralism as a broad norm. Instead, the U.S. has become much more selective in its support for IOs which, as we shall note later, has implications on the type and direction of change. The incentives for the U.S. in supporting the family of IOs, are further reduced by the preeminence of U.S.

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<sup>6</sup> These range from the International Standards Organization (ISO), whose standards, ranging from products to internal corporate procedures to environmental standards, are increasingly becoming the “norm” for market actors; the International Securities Markets Association, a private regulator that oversees international trade in private securities markets-the world's second-largest capital market after domestic government bond markets; the International Organization of Securities Commissions (IOSCO) which has become a leading force in coordinating international enforcement of securities laws; the International

based institutions, both among non-profit transnational NGOs as well as market actors (MNCs). This has meant that the web of international rules being woven by these actors has a greater degree of conformity (although they are by no means identical, especially in the case of NGOs) with domestic U.S. norms.

Finally, the informatics revolution has weakened the role of IOs as informational intermediaries that reduce the transaction costs of cross-national interactions. The range and sources of information and the ease with which information can be accessed has profoundly changed. Information can now be obtained directly and rapidly from original sources, consequently reducing the importance of intermediaries. However, IOs still retain their comparative advantage as relatively neutral “seal of approval” on the quality and relative comparability of information.

### *Crises and Disasters*

Change often follows shocks. And shocks, in the form of crises and disasters tend to lay bare the limitations of existing arrangements and policies. Indeed, the origins of existing international institutional arrangements, ranging from the United Nations to the Bretton Woods Institutions, are (for the most part) attributable to the crises and disasters faced by the international system in the 1930s and 1940s.

In recent years, disasters have been a strong impetus for change. The agreement on the new International Criminal Court (ICC) in 1998 came from a broad consensus that existing international institutional arrangements were poorly suited to addressing the juridical issues arising from events in the former Yugoslavia and Rwanda. The

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Association of Insurance Supervisors, (IAIS) on insurance; the International Union for the Conservation of Nature (IUCN) on environmental issues, etc....

International Court of Justice (ICJ – the so-called World Court) resolves disputes between governments and does not get involved in intra-state issues. The UN can impose economic sanctions or press for military intervention. The impact of sanctions falls most heavily on the general population, while military intervention imposes the heaviest costs on the rank-and-file soldiers on the front line. In contrast, the ICC is designed to direct the threat of justice more precisely on the political and military leaders who are responsible for mass slaughter.

Analytically, however, disasters and crises are not necessarily exogenous to IOs as a factor driving change. There is considerable endogeneity in some cases, where IOs have been intimately involved in precipitating crises, although the degree of responsibility is quite contentious. The massacres that followed the fall of the Bosnian enclave of Srebrenica in 1995, changed the basic tenets of United Nations peacekeeping operations and forced the UN to rethink its peacekeeping philosophy of neutrality and non-violence in civil conflict. Henceforth, the UN would become more willing to take sides and to insist on deploying a well-armed fighting force instead of lightly armed peacekeepers into environments where there was no cease-fire or peace agreement.

Well publicized environmental fiascoes (Transmigration in Indonesia; Narmada in India; Polonoreste in Brazil) were critical in making the World Bank rethink the way its infrastructure projects were conceived and implemented. The criticisms related to these failures forced the World Bank to incorporate greater transparency and participation in its projects and to employ stricter environmental impact assessment procedures.<sup>7</sup> The IMF has been slower to change despite perceived failures, but nonetheless, after recent

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<sup>7</sup> See Jonathan Fox and David Brown, The Struggle for Accountability: The World Bank, NGOs and Grassroots Movements, Cambridge: MIT Press, 1998.

financial crises, it retreated from its insistence on pressuring countries on capital account convertibility and has also moved toward greater transparency (albeit from a low threshold) in response to fierce criticism.

Financial crises have also forced an acknowledgement of the growing economic and financial importance of the larger developing countries and have resulted in some efforts to engage them in hitherto closed groups. The OECD has expanded at the margin, admitting Mexico and South Korea, and it has recently begun to invite non-members to its annual ministerial meeting.<sup>8</sup> Over the past few years, the BIS (which has been a key forum for discussion of international monetary questions) whose membership was long confined to the G-10, has over the past few years begun to invite officials from the central banks of larger developing countries, irrespective of whether or not those institutions are BIS shareholding central banks. US frustration with the European dominance in the G-7 and G-10 led it to sponsor the G-22, although the latter's expansion to (thirty-three members) at the behest of the smaller European countries undermined its objectives. Subsequently, in early 1999, the G-7 initiated the Financial Stability Forum (FSF) which included in addition to significant international financial centers (Australia, Hong Kong, Netherlands, Singapore), international financial institutions (IMF, World Bank, BIS and OECD); sector-specific international groupings of regulators and supervisors (Basle Committee on Banking Supervision, International Organization of Securities Commissions and International Association of Insurance Supervisors); and committees of central bank experts (Committee on Payment and Settlement Systems, Committee on the Global Financial System).

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<sup>8</sup> The countries are Argentina, Brazil, China, India, Indonesia, Slovakia, South Africa and Russia. *Financial Times*, May 25, 1999, p. 6.

Disasters can, however, impede change as much as they promote it, particularly when filtered through the prism of domestic politics. The UN's intervention in Somalia had far-reaching consequences. It was pivotal in reversing US policy on UN operations from a stance of promoting "assertive multilateralism" to refusing to accept virtually any new UN peacekeeping operations. Reaction to the Somali debacle led directly to the UN's colossal failure in Rwanda. By the early summer of 1994, the US had dug in its heels about avoiding any risk in UN operations, and the Security Council not only refused to strengthen the UN force in Rwanda but cravenly reduced it. The possibility of multilateral peacemaking, particularly through the UN, suffered a severe setback.

### *Competition*

Competitive pressures for resources and mandates – among IOs and between IOs and national bodies, market institutions and NGOs – have been an important factor driving change. IOs faced little competition in the 1950s and 60s. It was an expansionary era for IOs and alternative transnational institutional mechanisms, both market and non-market, were limited. But even then competition forced change in the few instances that it did occur. During the 1950s, the IBRD discouraged the idea of soft loan lending to developing countries in contrast to the UN, which had been more proactive (through its Special UN Fund for Economic Development, proposal). When it appeared that the US would launch a soft-loan facility in any case and that it might be lodged in the UN, the IBRD reversed its stance. The result was IDA, which fundamentally changed the character of the World Bank. Similarly, the IBRD softened its opposition to lend for

social sectors after the creation of the Inter-American Development Bank (IDB), which had no such inhibitions.

Competition (or lack thereof) from alternative sources of funds – whether bilateral aid, government export agencies, private-sector lending or other multilateral development banks and agencies – was for long a critical factor in explaining the tightness of the lending standards ("conditionalities") of the Bretton Woods institutions. Conditions were tighter when alternative sources of funds were limited (during the 1950s, 60s, and 80s) and looser when alternatives abounded, as in the 1970s. The IMF's burst of low conditionality lending in the late 1970s and early 1980s was similarly driven by a fear of institutional irrelevance when the surge of commercial bank lending threatened to undermine its liquidity function. In general it would appear that the conditionality regime has become tighter in the 1990s. Although this reaffirms the competition hypothesis in the case of Africa and countries struck by economic and financial crisis, where few alternatives exist (especially since cold-war rents have vanished), nonetheless the conditionalities of the Bretton Woods institutions have become tighter even where there has been greater competition (particularly from private sources). This change, as we shall discuss later, is due to structural changes and changing norms on the use of conditionalities.

During the 1990s the environment for IOs has become much more competitive. This is especially true of development oriented IOs which have seen their market share shrink, either at the hands of the private sector in infrastructure-related projects (hitherto the bread-and-butter of multilateral development banks) or NGOs in poverty and social-sectors. Competition among IOs has also increased. While in part this represents old-

fashioned turf battles among bureaucracies, it has also been propelled by the decline in the overall resources available to the family of IOs. The share of contributions to multilateral institutions in total net flows of financial resources from OECD countries to developing countries and multilateral institutions declined by half between 1986-86 and 1996-97 (averaged over two years) – from 17 percent to 8.5 percent.<sup>9</sup> While the decline in real terms was less (from about \$17 billion to \$16 billion, at 1996 prices and exchange rates), the resources made available to IOs were spread out over more countries (with the inclusion of countries from East Europe, Central Asia and Indochina after 1990) and faced substantially greater demands from burgeoning humanitarian and civil conflict crises.

Competition also drives changes in international institutional arrangements, leading to the formation of new IOs. Following the Cuban revolution, once the U.S. agreed to the demands of Latin American countries for a regional development bank (the Inter-American Development Bank), other regions responded by setting up similar institutions – and the African Development Bank, Asian Development Bank and a host of sub-regional development banks followed suit despite the existence of the World Bank. More recently the formation and/or resuscitation of regional groups has been driven by competition from other regional groups. Following the example of the EU and NAFTA, trade has become the pivotal issue in driving regional institutional arrangements, whether ASEAN, Mercusor, the Andean Group, SAARC or SAADC.

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<sup>9</sup> Data from OECD. Available at <http://www.oecd.org/dac/htm/TAB02e.HTM>

## *Norms*

Human rights, neoliberal economic agendas, governance, gender and the environment are just a few norms that have come to occupy center stage in the agenda of IOs in recent years. Norms are complex sets of meanings including permissions and prohibition, through which people understand and act in the world. Historically constructed norms, ideas and discourses have played an important role in institutional change, albeit one where precise causality is difficult to prove. Norms serve a regulatory purpose -- they constrain. They may also have constitutive effects, by shaping forms of behavior, roles and identities through practice. Although the argument that norms are simply a function of power and interest and thus are redundant as an analytical category has considerable merit, it is more likely that the constraining and constitutive effects of norms mutually shape and reshape each other. In particular by shaping preferences, norms can enter into, and change, interests.

The origins of the norms, the mechanisms by which those norms exercise influence and the conditions under which they are more likely to be influential are hard to identify with much precision.<sup>10</sup> This complexity is further enhanced by long time it takes for norms to diffuse and change the behavior of IOs. Some norms gradually garner legitimacy on the basis of mounting evidence that is underpinned by a solid body of research. The WHO's anti-smoking campaign and the emphasis placed by development agencies on girls' education are examples of this phenomenon. Systemic changes and crises can accelerate the acceptance and diffusion of hitherto latent norms in international institutions. Environmental norms diffused more rapidly within the multilateral

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<sup>10</sup> A good survey of the issue can be found in Martha Finnemore and Kathryn Sikkink, "International Norm Dynamics and Political Change," *International Organization*, 52 (4), Autumn 1998, pp. 887-917.



development banks after the brouhaha surrounding several of their projects cited earlier. The increasing importance of governance in the agendas of the IFIs and the UN system during the 1990s was the result of the continued development crisis in Africa and the problems faced by the transition process in East Europe on the one hand, and the weakening of the norm of sovereignty on the other.

As the last example indicates, the acceptance of norms cannot be understood without reference to context, and the changing constellation of key actors, their beliefs and preferences, and their interests and relative bargaining power. The last is a reminder that norms can also serve as a fig-leaf for more prosaic material interests. There is understandable skepticism that richer countries are long on norms when they are short on resources, and the increasing attention to norms of governance even as development budgets decline is perhaps not entirely coincidental. As long as the Cold War was on, “crony capitalism” in Indonesia was not considered a problem. Nor was it a problem while the East Asian “miracle” was being trumpeted. But when the Asia crisis of 1997-98 erupted, “norms” of corporate governance were strenuously advanced to deflect attention from broader issues of the nature and quality of international financial regulation.<sup>11</sup> Similarly while the virtues of the norm of democracy are trumpeted within states and intranational governance, the same norm is seen as faintly ridiculous in international governance. On the other hand, poor countries often wave the norm of sovereignty when their domestic governance leaves much to be desired.

### *Domestic politics*

Domestic politics has been an important, albeit less predictable, factor in shaping change in international institutions. Expectedly, the importance of domestic politics as a factor affecting change in IOs matters only in the case of the more powerful states. In recent years, IOs have often been whiplashed by domestic U.S. politics. The ill-fated raid by US Rangers to capture General Mohammed Aidid in Mogadishu, and the accompanying televised images of a dead American helicopter pilot being dragged through the streets of Mogadishu, led to a major backlash in Washington and proved devastating for the UN. There were furious recriminations against the UN in the US, although the operation had been conceived and commanded exclusively by the United States without the prior knowledge of the United Nations (or even of senior US officers in the UN). The results for the UN peacekeeping operations are well documented and were an important factor in the U.S. decision to block Boutros Boutros Ghali's reelection as Secretary-General.<sup>12</sup>

International institutions have often served as convenient whipping boy in domestic U.S. politics, particularly in the 1990s. The end of the cold war relaxed the pressures for a broad bipartisan consensus on U.S. foreign policy. Funding for IOs was invariably ensnared in partisan politics which in the 1990s pitted a Republican Congress against a Democratic president. The domestic politics of abortion in the U.S. has led to unilateral (and therefore unacceptable) riders on UN support for family planning initiatives and to forced budget cuts. Indeed in some instances, as in the case of UN

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<sup>11</sup> See Robert Wade, "Gestalt Shift: From "Miracle" to "Cronyism" in the Asian Crisis," *IDS Bulletin*, 30 (1), 1999, pp. 134-49.

reform, the U.S. failure to pay its dues stymied the very changes it had been pressing so hard to promote in the first place, as other countries balked.

International trade is perhaps the most salient issue area where politically powerful domestic lobbies have either forced change or blocked change. Japanese and EU agriculture lobbies stymied agreements in the Uruguay round as well as at Seattle, while textile and pharmaceutical interests in the U.S. were instrumental in the MFA and TRIPs agreements. The U.S. push for environmental and labor standards in the Seattle round was driven by President Clinton's desire to regain "fast-track" authority to negotiate free-trade agreements for which he needed the support of environmental and labor groups as well as the desire for support from influential labor groups for Vice-President Gore's presidential aspirations. Similarly incumbent left-of-center governments in the EU, plagued by high levels of unemployment, pressed for labor standards to be included in the Seattle round to placate key labor constituencies.

### *Leadership:*

International institutions are not a passive set of rules or impassive structures but are active sites of bureaucratic politics that empower international officials who wield transnational influence and act as agents of change. It is hardly surprising that leadership change and institutional change (institutions as rules or as organizations) go hand in hand. Indeed if there is no desire for change, then there would be little need for changing leadership. This is as true for political leaders and voters as for CEOs and shareholders

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<sup>12</sup> Brian Urquhart, "The making of a Scapegoat," *The New York Review of Books*, August 12, 1999.

(through board members) and for IOs and their member countries as well. In recent years more rapid leadership turnover and clamor for change in IOs have gone hand in hand.<sup>13</sup>

But just how important is leadership for change in international institutions in general and IOs in particular? And under what conditions is leadership likely to be a more important than other factors? Does leadership really lead or does it lead only to the extent it is allowed to by an IO's principals? A considerable body of research has documented the importance of "supranational entrepreneurship" -- informal political leadership by high officials of international organizations -- in influencing the outcomes of multilateral negotiations, although the mechanisms and degree of importance are contested.<sup>14</sup> Robert McNamara played a singular role in transforming the World Bank in his thirteen year stint as President of that institution (1968-81) as did Raul Prebisch in the case of ECLA (Economic Commission for Latin America) in the 1950s. Could they, however, have been as successful in changing their institutions in the 1980s, when the atmosphere for multilateral institutions was much more hostile? Not as much to be sure, but during the 1970s while the Word Bank flourished, UNESCO under Amadou Mahtar M'Bow, languished in the same environment. Similarly ECLA's counterparts in other regions were much less successful in institutional change and adaptation, even in the period when ECLA flourished. Was leadership the deciding factor that explained not just the degree of change, but also the direction of change that allowed one institution to emerge much stronger at the end of the 1970s?

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<sup>13</sup> Frustrated with the lack of change in the WHO, its members voted for a new leader in July 1998, and when Gro Brundtland succeeded Hiroshi Nakajima she immediately launched significant organizational changes.

<sup>14</sup> For an analysis of the phenomenon in the European Community (EC) see, A. Moravcsik, "A new statecraft? Supranational entrepreneurs and international cooperation," *International Organization*, 3: (2), pp 267-306, Spring 1999.

The importance of the variable “leadership” (relative to other factors) in shaping the contours of change is an increasing function of an IO’s relative autonomy and the institution’s relative importance. While we defer the discussion on the variables that affect IOs’ autonomy to the next section, two points need emphasizing here. One, IOs leadership have considerable agenda setting power, which affects not just *which* issues are brought to the table but, critically, *when*. Second, an IO’s leadership also has considerable discretion in internal organizational matters, ranging from budgetary procedures and priorities and financial controls, to personnel and procurement policies. Although these factors seem rather prosaic in the larger scheme of things, these micro dimensions are critical to organizational effectiveness, and in turn to an IO’s legitimacy and autonomy. Poor leadership in particular can undermine the internal workings of an IO with surprising ease. Agency problems are severe in IOs and accountability mechanisms involving an IO’s leadership are weak except for renewal or denial of another term (it is virtually impossible to sanction leaders of IOs until his/her term is completed).

If the intensity of lobbying and conflict over the selection of the leadership of IOs is any indication the principals of IOs -- member states -- clearly believe that leadership matters. In recent years, bitter disputes, strong-arm tactics and side payments to some members have accompanied the selection of leaderships of IOs, ranging from the African Development Bank, ITU, UNESCO, WHO and more recently, WTO and IMF. But if leadership matters, what are the selection mechanisms? One explanation stems from the severe agency problem characteristic of IOs, mentioned earlier. Since principals (member countries) have few instruments to reward or sanction their agent (an IO’s leadership),

they look upon leadership contests as an opportunity to choose a “good type” of leader, one who shares their preferences and would act on behalf of their interests.<sup>15</sup> Reelections would be opportunities for sanctioning behavior inimical to the country’s interests. But how does a country determine that a prospective leader would act on behalf of its interests? In the absence of complete information about a candidate, countries chose nationality and region as surrogates of the likelihood of the candidate reflecting their policy preferences. In addition countries vote strategically in leadership contests, backing candidates simply to block third candidates (who they believe reflects interests inimical to theirs) or garner payoffs in other issue areas. In some cases the desire of country to secure a leadership position for its own nationals may have symbolic implications, with the intention of projecting or signaling some intent by the state in question.<sup>16</sup> The large resources deployed by Japan in this regard are a case in point, as Japan seeks to project an image of global leadership and become a permanent member of the Security Council. In other cases, countries push their nationals for candidates of IOs for domestic political reasons, either as reward or to remove them from the domestic political arena.

The above discussion suggests that leadership, as an analytical category shaping change, straddles both exogenous and endogenous categories. But are the selection mechanisms of leaderships of IOs random, or are there reasons to believe that there is a systematic bias in the choice of leadership, which in turn shapes the trajectory of change?

Our hypothesis is that more autonomous an IO and the more it is involved in the distribution of economic resources or the greater its sanctioning authority, the greater the

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<sup>15</sup> This mechanism draws upon models of electoral accountability. See James Fearon, “Electoral Accountability and the Control of Politicians: Selecting Good Types versus Sanctioning Poor Performance,” mimeo, 1999.

desire to maintain exclusionary mechanisms for leadership selection or, in their absence, the greater the intensity of conflict over leadership choice. Exclusionary mechanisms are evident in the leadership of the Bretton Woods institutions, which enjoy a primacy among economic organizations. Thus the President of the World Bank is a U.S. national, the Managing Director of the IMF is from West Europe even though choosing a candidate from a global pool would improve the probability of a better candidate. Among the regional development banks, the Asian Development Bank (ADB) is exceptional in that its President is a Japanese national while the others draw from a regional pool. The WTO is a good example of an IO whose actions are seen to be critical to the interests of member countries. Hence the intensity of the conflict in the selection of its Director General in 1999, with the unprecedented outcome of the six-year term being split into two three-year terms, to accommodate the two rival camps.

In the case of the United Nations, the Secretary General's post is off-limits to the major powers but only because they enjoy veto power on critical matters. Even otherwise, the fear that the Secretary General would be capable and autonomous has been an important reason for the selection of pliable leaders and in the rare exception where this was not the case (Boutros Boutros Ghali), the reelection was torpedoed.

### *Learning:*

Change may also occur simply due to organizational learning. But what determines learning? In what ways are organizations capable of learning? Among the kinds of learning that organizations are capable, which ones are desirable? Several of

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<sup>16</sup> The original argument of how and why states project desired images is Robert Jervis, The Logic of Images in International Relations, Princeton: Princeton University Press, 1970.

factors discussed earlier, affect change in IOs, both directly as well as indirectly by their impact on learning. Competition, failures, and changing norms and epistemologies are all likely to spur learning. The consequences of an international institution's own actions may lead to wider systemic learning which, in turn can shape future change in that institution. The Uruguay Round was quite successful for global trade, but relatively less so for developing countries. The lessons were clearly carried over into the bargaining at Seattle, and the failure of the trade negotiations at Seattle stemmed at least to some degree from the type of success achieved in the earlier trade round.

Institutional learning is likely to be Bayesian, that is, institutions update their beliefs in response to new information. However, the ability to process information is not equal across IOs. A large literature on organizational learning stresses the importance of an organization's capabilities in affecting learning. Capabilities, in turn, depend on variety of factors ranging from recruitment criteria (the stock of human capital), organizational structure and systems of authority, and staff and managerial turnover (long serving staff are more likely to defend the status quo than new staff but may simply reinvent the wheel).<sup>17</sup> Even if it were possible to correctly gauge an IO's capabilities, it is unclear how one could analytically distinguish change in IOs due to learning from the factors discussed earlier.

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<sup>17</sup> C. Argyris and D. Schon, Organizational Learning II: Theory, Method and Practice, Reading, Addison Wesley, 1996.



### Variations in degree and characteristics of change

The above analysis of the factors driving change in international institutions does not, however, explain why change is faster in some institutions than others or why the content of change varies across institutions. This variation, I argue, can be explained primarily by the interaction between institutional history and the type of exogenous changes discussed earlier. The former affects key characteristics of an IO – its goals and instruments, governance and financial structure – which shapes the specific trajectory of change of different IOs consequent to exogenous changes.

The importance of path dependent change is strongly supported from the evidence that founding conditions become imprinted on organizations and mold their subsequent development.<sup>18</sup> This is true not only at the meta-institutional level but also at the meso-organizational level, where initial institutional design exerts an indelible and enduring influence on the trajectory of change in organizations.<sup>19</sup> Institutional characteristics are key to determining the varying contours of change across institutions and organizations that result when exogenous factors initiate change. These characteristics of organizational ecology include the charter (or "Articles of Agreement") that delineates membership criteria and mandated functions, institutional governance, and internal

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<sup>18</sup> Arthur Stichcombe, "Social Structure and Organization," in Handbook of Organization, J.G. March (ed.), Chicago, IL: Rand-McNally, 1968, pp. 142-93.

<sup>19</sup> William P. Barnett and Glenn R. Carroll, "Modeling Internal Organizational Change," Annual Review of Sociology, 2, 1995, pp. 217-36. Warren Becker, "Strategic Change: The Effects of Founding and History," *Academy of Management Journal*, 32, 1989, pp. 489-515.

organizational processes such as recruitment practices and budgetary sources, factors that are generally ignored in most analysis of IOs.<sup>20</sup>

The institutional grid of the current international system was essentially laid out in the mid-1940s. The period was a historic “critical juncture” when the rules of the game of the current international order were mapped out. While at the outset rule-making processes were relatively open, they became much more closed as time went on. But at Dumbarton Oaks and at Bretton Woods, barely a quarter of the current members of IOs were present when the rules were being crafted. These countries would join as rule-takers and not as rule-makers. At a given point of time power is unequally distributed and certain actors are in a position to impose rules on others. This imparts a strong element of path dependency as those power relations get reproduced over time despite a marked change in circumstances. The resulting institutional rigidities mold the characteristics of change.

Perhaps the most rigid consequence of institutional history is structures of governance of IOs (distribution of voting power, veto points, participatory structures). Expectedly they shape the trajectory of change in directions that reflect the structure of power in these organizations. A relative concentration of power and limited recourse to veto rules can certainly affect the speed and direction of change. The Uruguay Round of the GATT is a good illustration. However, the lack of a more democratic and participatory structure reduces legitimacy and therefore longer term sustainability. The very governance structure that led to the “success” of the Uruguay round laid the seeds of failure of the succeeding Seattle Round in 1999.

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<sup>20</sup> Peabody makes this point in the case of the WHO. J. W. Peabody, “An organizational analysis of the World Health Organization - narrowing the gap between promise and performance,” *Social Science and*

But the correspondence between the formal structures of governance, including forms and degree of participation and democracy, and change in international organizations, should not be overdrawn. The different multilateral development banks (AfDB, ADB, EBRD, IBRD) vary considerably (though not radically) in their structures of governance, but their trajectories of change have been more or less similar. There can be little doubt that governance structures – including types and forms of representation, voting and majority rules and veto points – matter. But that does not mean that international institutions can (let alone will) be democratic. An unpleasant reality of international institutions is that whatever form of governance and decision-making prevails in international organizations, they will not be democratic in the sense that democracy is a system of popular control over decision-making.<sup>21</sup> Structurally IOs will always face a democratic deficit. As Robert Dahl has argued even in countries with deep-rooted democratic structures, it is “notoriously difficult” for citizens to exercise effective control over key decisions on foreign affairs; their influence on international institutions is likely to be much less. One country one vote (as in the UN) might seem more democratic than one dollar one vote (as in the Bretton Woods Institutions) but both violate the notion of democratic equality inherent in one person one vote.

Expectedly, charters pose one of the more difficult barriers to change, since changes to charters, like changes to constitutions, require super majorities that are not easily achieved. The articles of the World Bank have been amended just twice since it was established and in the IMF's case three times, despite the enormous change in the

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*Medicine*, 40: (6), March 1995, pp. 731-742.

<sup>21</sup> Robert A. Dahl, “Can international organizations be democratic”, in Ian Shapiro and Casiano Hacker-Cordon (eds.), *Democracy's Edges* Cambridge University Press, 1997. Dahl's skepticism of the possibility

scope and substance of the institutions' work. This apparent incongruity has been possible for a number of reasons. The original articles themselves were not very confining (and when they appeared so the institutions' lawyers were skillful in their creative interpretation). And in recent years, when even creative interpretation has not been possible, the institutions have managed to skirt the spirit if not the letter of the articles, because the issues involved only affect developing countries while the voting rules are heavily weighted in favor of industrialized countries.

Nonetheless institutional rules pertaining to veto points and super-majorities pose barriers that are exceedingly difficult to breach. In the Bretton Woods Institutions, the super majority required for a formal amendment to the Articles of these institutions or for a capital increase( in the case of the World Bank) or quota increase (in the case of the IMF) effectively gives veto power to one country, the United States.<sup>22</sup> In the UN's case, Articles 108 and 109 of its charter require that any formal amendment be ratified by two-thirds of the member states, including all the permanent members of the Security Council. The circumstances under which such a majority can be mustered are truly exceptional and certainly is not the case at present. Any change regarding the veto -- the fundamental rule of UN decision-making as well as the most direct expression of the inequality of states - - is even more unlikely. While the veto is fundamentally undemocratic, it keeps the big players in the game -- and there is no game without them. The states currently entitled to it will not agree to any meaningful limitations. Aspirants such as Germany and Japan are unlikely to accept a veto power inferior to incumbents

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of designing democratic international organizations is shared by James Tobin, "Comment on Dahl's Spepticism". Ibid.

while developing countries, who have jointly fought the veto for decades, are split into those who now aspire to permanent membership and the veto and those who maintain a negative stance.

Membership in some organizations is open to all states, while others limit membership according to criteria such as geography, historical association, or shared purpose. Some organizations have broad general mandates; others limit themselves to specific functions. Collective action in international organizations which limit membership according to pre-specified criteria is relatively easier and therefore these organizations are more likely to reach a consensus on change. The relative ease with which NATO shifted tack after the end of the cold war despite the demise of its *raison d'être*, illustrates this point. On the other hand, the common criteria for membership may also result in stronger risk correlation across members inducing institutional stresses that may paralyze decision making. The failure of most international commodity organizations (ranging from the International Rubber Organization to the International Tin Organization to OPEC), the OAS during the Latin American debt crisis, ASEAN's poor performance during the 1997-99 Asian crisis, and the stresses in regional trading arrangements like Mercusor during the economic downturn in Latin America in 1998-99, are cases in point.

Path dependency also affects changes in organizational processes, which over time have significant consequences for organizational effectiveness and (critical for public institutions), legitimacy. This is particularly important in the case of staffing and recruitment practices which are key to the creation of Weberian bureaucracies, which in

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<sup>22</sup> Indeed one of the two amendments to the World Bank's Articles (in 1989) was to increase (from 80% to 85%) the voting majority for approving a capital increase to ensure that the U.S. retained its veto power

turn have been critical agents of change in a variety of national and international settings. However, meritocratic recruitment does not mean that the absence of bias in the nature of embedded norms within such bureaucracies. Consequently, although the Bretton Woods Institutions and WTO have some of the more meritocratic recruitment processes within international institutions, their selection criterion is biased toward economists from elite U.S. universities. Not only has this meant that the norms common in elite U.S. economics departments dominate these institutions, but also that experience is undervalued relative to academic credentials because of limited attention paid to horizontal recruitment. However, the more senior the managerial position, the more the relative balance between nationality considerations and merit shifts in favor of the former.

It is often alleged that the bureaucracies in IOs are "hide bound" and deeply resistant to change. But evidence would suggest otherwise. In the World Bank, for instance, staff is frequently supine -- terrified of losing their substantial benefits (and for many their visa status) and consequently prone to jump at the smallest presidential twitch. If anything the "obstructionist" charge has been a convenient cover for the current chief executive allowing him to remove senior managers who have dared voice dissent<sup>23</sup>

The UN family, particularly the Secretariat, faces a different problem. Nationality quotas are relatively more important and they have contributed to mediocrity and nepotism.<sup>24</sup> It is unfortunately true that for many LDC nationals the difference between wages in their home countries and earnings as international bureaucrats is substantial,

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even as its share in the capital declined.

<sup>23</sup> Devesh Kapur, "The Changing Anatomy of Governance of the World Bank," Paper presented at conference on "Reinventing the World Bank," at Northwestern University, May 1999.

which means that LDC elites are often nominated by their governments for these jobs.<sup>25</sup>

To the extent their opportunity wages are substantially lower, this group is more likely to resist change, especially any change that may threaten their jobs. It is likely that the creation of an international civil service with specified rules and selection criteria would mitigate these problems, but there is little support for such a service.

The importance of path dependency notwithstanding, it alone does not explain the variance in the content of change across IOs. Rather, the *content* of change is shaped by the interaction of institutional history with the precipitating factors driving change. In recent years, three factors have been particularly important (in turn resulting from changes in structural power, interests and preferences). One, financial pressures on IOs have substantially increased. As a result, IOs with greater financial autonomy, i.e. those less dependent on direct appropriations of public funds, are becoming relatively more important. Second, as a result of a growing congruence between norms and interests of the more powerful member states of the international system, there is an increasing reliance on punitive measures relative to incentives. As a consequence the mandate of those IOs equipped with punitive instruments has been expanding relative to those that use principally incentive or “development” oriented instruments. Third, an increase in disasters and crisis, has forced a shift in the time-horizons of the activities of IOs. The “discount-rates” of IOs have increased and consequently their attention to long-term “development” related activities has been declining. Furthermore, crises have also

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<sup>24</sup> For instance, in the case of the United Nations, the retiring head of the Office of Internal Oversight Services remarked that the organization, “until very recently, has never chosen senior staff on their management abilities,” *New York Times*, November 15, 1999, p. A10.

enhanced the “liquidity premium” of IOs since a rapid response to crises requires quick access to additional financial resources. Consequently, IOs which can commit new resources rapidly – inevitably IOs with greater financial autonomy (the international financial institutions) relative to their counterparts that are more dependent on government funds -- are in greater demand.

A critical institutional characteristic that shapes the content of change is an IO’s financial structure. Financial autonomy is the key to bureaucratic autonomy and can also be the crucial instrument to leverage change. The salience of this issue is quite different for the IFIs relative to the UN family since the former enjoy greater financial autonomy. Since the mid-1980s the UN family has faced much tighter budget constraints. In some cases key donors have exited and in others they have simply refused to pay pending specific “reforms”. In the 1990s, virtually every multilateral organization has been in the throes of “reform” in the 1990s designed to make them more “efficient, effective, and responsive,” but the dimensions of these changes have differed.

In the UN system these changes have entailed zero budget growth, program cutbacks and staff cutbacks principally through attrition. The UN Secretariat established an Office of Internal Oversight Services (OIOS) in late 1994 and appointed a former CEO of a major international accounting firm as UN Under Secretary General for Administration and Management. The aim was to establish standards for management accountability and to overhaul personnel, procurement, and planning systems – the basics of a modern management structure. An efficiency review was launched in November 1995 and the

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<sup>25</sup> It is interesting to note that despite all the noises about “diversity” in recruitment to international bureaucracies, to the extent diversity is valued in recruitment it is on the basis of nationality and gender, but never class. There are undoubted practical reasons for this, but self-interest is also evident.



General Assembly had three groups studying reforms, including reform of the Security Council and the institution's finances.<sup>26</sup>

The story has been similar for other organs of the UN. Following UNCTAD VIII in February 1992 the United Nations Conference on Trade and Development (UNCTAD) initiated major institutional changes which emphasized consensus building as opposed to the earlier approach which attempted to negotiate binding international agreements or resolutions among its traditional four-group system. UNCTAD's acceptance that economic policies based on market forces were the best basis for achieving development, in contrast to its earlier emphasis on the role of the state, ensured its continued survival. UNIDO launched a major restructuring in 1993 and refocused its services when several major industrialized countries threatened to leave. WHO, whose budget has been declining in real terms for the past 15 years, proceeded with a list of 47 reforms in 1993. In 1998, under a new Director-General, further restructuring ensued when more than fifty programs were merged into ten divisions. Faced with a stagnant budget and pressed by its donors, the UN Development Program (UNDP) cut its administrative budget by ten percent, reduced headquarters staff by a quarter and senior executive positions by fifteen percent while tightening its focus on poverty eradication. The WIPO (the World Intellectual Property Organization) cut its 31 programs down to 19. The list goes on.

The story has been different, however, for the IFIs which enjoy greater financial autonomy. For the multilateral development banks and the IMF, the central focal points for major shareholder pressure have been capital increases and quota increases (in the

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<sup>26</sup> There has been no shortage of reform proposals for the UN since its inception. A recent compilation reprinting every major reform proposal laid out for the United Nations runs into three thousand-page volumes. Joachim Muller (ed.), Reforming the United Nations: New Initiatives and Past Efforts. Boston: Kluwer Law International, 1997.

case of the IMF). Since these increases are few and far between (averaging once a decade) donors have focused on alternative mechanisms to influence change. The principal mechanism has been replenishment of soft loan windows, which occur every three to four years. In the case of the World Bank, the IDA tail began to wag the Bank dog since the early 1980s. The annual budget approval process and the use of net income have become powerful levers for change.<sup>27</sup> In the case of both the UN and the IFIs, donors willing to commit resources but lacking in political clout (particularly the Nordics and Japan) began using off-budget financing to influence the agendas of these institutions. By supplementing the institution's budgetary resources through "trust funds," which have grown rapidly both in number and volume, these countries have sought to shape institutional priorities by bypassing the regular budgetary process. To the extent that budgets reflect the priorities of an institution, the growing share of off-budgetary funds in financing administrative expenses changes micro incentives within organizations. It provides a mechanism for change from below, even when change from above is stymied by the lack of change in formal institutional governance structures.

A second factor shaping change among IOs – in particular their relative importance vis-à-vis each other – has been the increasing preference for punitive instruments over incentive based instruments in international relations. Bilaterally this has been most evident in the increasing use of sanctions as an instrument of U.S. foreign policy in areas as disparate as trade to nuclear proliferation to drug control to human rights despite their quite limited effectiveness.<sup>28</sup> Given the influence of the U.S. in IOs,

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<sup>27</sup> Devesh Kapur, "Global Governance and the Common Pool Problem: Insights from the World Bank's Net Income," mimeo, Department of Government, Harvard University, 1999.

<sup>28</sup> See for instance, Richard Haas (ed.), *Economic Sanctions and American Diplomacy*, Council on Foreign Relations, 1998. Kimberly Ann Elliott and Gary Hufbauer, "Ineffectiveness of economic sanctions: Same

this shift in U.S. preferences in favor of punitive instruments, has diffused into multilateral institutions and is reflected in the choice of IOs as new agendas are placed on the international system. The privileging of the WTO, a recent addition to the family of IOs, relative to other IOs, in common issue areas illustrates the point. Although for long intellectual property rights was the purview of WIPO, the enforcement of the IPR regime was placed within the WTO and not WIPO. A similar rationale has been evident in the drive by the US and the EU to keep global labor standards in the WTO and not the “toothless” ILO. Indeed President Clinton, in pressing for a working group on labor standards within the WTO, was clear that [the working group] “should develop these core labor standards, and then they ought to be part of every trade agreement, and ultimately I would favor a *system in which sanctions would come for violating any provision of a trade agreement.*”<sup>29</sup> For similar reasons, despite the existence of the UNEP -- an IO explicitly created for the purposes of addressing global environmental concerns -- the WTO has become the preferred institutional vehicle for environmental standards for the US and the EU. For similar reasons, issues of governance, which have explicitly political ramifications, are being principally addressed through the Bretton Woods institutions, which are financial institutions and are enjoined by their charters to eschew political considerations in their lending, and not through the UN which has a more explicit political mandate. In all cases institutional choice is guided by whether an IO is equipped with punitive instruments or not, rather than institutional mandate and comparative advantage *per se*.

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song, same refrain? Economic sanctions in the 1990's,” *American Economic Review*, Papers and proceedings, v. 89 (2), May 1999, pp. 403-8 ; Robert Pape, “Why economic sanctions do not work,” *International Security*, v. 22, 1997, pp. 90-136.

<sup>29</sup> Interview with President Clinton, *Seattle-Post Intelligencer*, November 30, 1999, emphasis added.

A third factor influencing the content of change in IOs has been the growing importance of disasters and crises in driving change. Crises influence the content of change in IOs by increasing the discount rate of the principals of the IOs. As a result those IOs whose goals are geared to emergency response (such as UNHCR) are becoming more privileged while others are changing their programmatic focus to short-term emergency responses. In the case of the United Nations, the size of its peacekeeping budget relative to its regular budget has tripled over the last decade -- from around a quarter in the late 1980s to more than three-fourths in the late 1990s.<sup>30</sup> Over two decades, the World Food Programme (WFP)'s resources devoted to emergencies increased from less than a fifth in 1977 to 85 percent in 1997. While earlier, three-fourths of the resources devoted to emergencies were a response to physical disasters (such as droughts), two decades later three-fourths of the resources were devoted to "man-made" disasters. In the process WFP was transformed from a development organization focused on creating long-term assets (and the largest UN agency in resource transfers) to a humanitarian response agency.<sup>31</sup> The resulting change in the time horizons of IOs are short-changing long-term programs.

### Consequences of Change

There is little doubt that both the UN and the Bretton Woods Institutions are under much greater pressure to change than in the past. Many IOs are caught between a

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<sup>30</sup> Ruben Mendez, "Peace as a Global Public Good," in Inge Kaul et. al. Global Public Goods, New York: Oxford University Press, 1999, p. 402.

<sup>31</sup> Raymond Hopkins, "Complex Emergencies, Peacekeeping and the World Food Programme," *International Peacekeeping*, Winter 1998, pp 71-91.

rock and hard place. They can either agree to the changes demanded by the major powers but in the process undermine their independence or, alternatively, maintain their agency but risk being marginalized. For the UN that marginalization was evident in Kosovo where the US and West Europe relied on NATO rather than face a possible veto in the Security Council. Global economic issues have also been largely negotiated outside the UN, especially in the framework of the 'Group of Seven' and, to a lesser degree, in the BIS, IMF, the WTO, and the OECD.

In part this is an inevitable consequence of a unipolar world where problems akin to those of monopolies in other economic and political settings are bound to arise. The earlier bipolar world had many problems, but it did have some of the benefits of competition. If the cold war made change difficult, with each camp often seeing change only too frequently as a zero sum game, now change is only possible if it proceeds in particular directions. But differences in institutional governance structures – ranging from patterns of representation, funding and veto points – mean that change in particular directions is more likely to occur in some institutional settings than others. Consequently, some institutions get privileged over others in the expansion of mandates and resources. In all these instances, the *ex post* institutional choice is clearly one where membership is restricted or influence is skewed in a particular direction, despite the existence of alternative institutional alternatives *ex ante*.

The trajectory of change in IOs is resulting in a "corner solution." Those international institutions that are relatively financially autonomous or are equipped with rule-enforcement powers (such as conditionalities, force or sanctions), are changing by expanding the scope of their activities. In opting for a "full menu" approach to their

mission – which means catering to the needs of nearly 200 member states – these IOs are adopting an approach akin to the U.S. Department of Defense’s practice of spreading defense contracts across states to maximize congressional support. The practice is designed to ensure that all members are kept reasonably happy. Since member states are increasingly susceptible to pressures from civil society (or in any case use it as an excuse), the expansive agendas also increasingly cater to “stakeholder” concerns, although much of this is “feel good” rhetoric and programs. On the other hand, international institutions that are financially more directly dependent on their members are moving to reduce the scope of their activities -- hoping that a narrower focus will help them retain support from a core clientele. As a result of these changes the variance in the size distribution of international organizations is likely to increase with a few large, broadly focused and financially autonomous organizations with rule-enforcement capabilities and a large cluster of IOs dependent on public funding with a narrower reach and scope.

## A Research Agenda

IOs are critical components of the institutional architecture of global governance. Consequently understanding their behavior is important, in particular the degree to which IOs are wanting in their capacity to change in a manner that has positive consequences for global welfare. In trying to understand the trajectory of change of IOs, this paper examines some causal mechanisms which point to a larger research agenda to understand the why, when and how of IO behavior. Four avenues seem particularly promising:

1. The theoretical tension between the *international institutional* and the *organizational* characteristics of IOs. The literature in political science that examines IOs has focused largely on the former.<sup>32</sup> One implication of this scholarship is that the high transaction costs accompanying the formation of international institutions lead international institutions to be inherently sticky. Were this not the case, the suboptimality of most international bargaining outcomes (of which international institutions are the product), would encourage governments to perennially negotiate and renegotiate agreements underpinning international institutions. However, from the perspective of the literature on organizational behavior, IOs *qua* organizations have to change if they are to thrive. The two perspectives lead to contrary conclusions about IOs: from one perspective IOs cannot but stand still, and the other that IOs cannot but change. How are the international institutional aspects of IOs constrained by the reality that they are organizations and how are their organizational aspects affected by the reality that they are international institutions?

2. Governance structures and IO behavior. Patterns of representation, delegation and decision-making, vary across IOs. We do not have a systematic theoretical or empirical understanding of why this may be the case and what are its consequences.
3. Competition and IO behavior. Most IOs face competition, be it from other IOs, from the private sector, or from INGOs. The increase in regionalism is leading to competition between regional and global bodies. In development projects, borrowers have some choice between a regional development bank and the World Bank. In trade disputes, countries can engage in forum-shopping – for instance Canada, Mexico and the US can choose between NAFTA and the WTO dispute settlement mechanisms in cases of trade dispute resolution.<sup>33</sup> To forestall competition to the IMF, the US opposed the creation of the Asian Monetary Fund. When is competition a choice variable? What features of competition – the source of competition, the structure of the “market” -- shape what aspects of IO behavior?
4. Financial structure and IO behavior. The paper suggests variance in IO behavior can be explained by differences in their financial structures. In particular, it claims that agency and growth of IOs are a function of their relative financial dependence on their principals and the distribution of financial risks that arise as a result of their operations.

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<sup>32</sup> For a recent notable exception see Michael Barnett and Martha Finnemore, “The Politics, Power and Pathologies of International Organizations,” *International Organization*, Autumn 1999, Vol. 53 (4), pp. 699-732.

<sup>33</sup> Marc Busch, "Overlapping Institutions and Global Commerce: The Calculus of Forum Shopping for Dispute Settlement in Canada-U.S. Trade." Paper Presented at the 1999 Annual Meeting of the International Studies Association, Washington, DC.