Impartial government requires the upward transfer of individual sovereignty. The replacement of feuds by courts reduced individual autonomy but created central authority.[1] A similar transition at the international level has not yet taken place. We should not be surprised to see that states in full retention of their sovereignty deploy it in the pursuit of their own interests. Such large modern states cannot bind themselves effectively in their dealings with smaller states, and thus find themselves in precisely the dilemma that faced European monarchs in the early modern era (Barzel 1997). However, the spur that induced such monarchs to sacrifice sovereignty in exchange for increased revenue collection, external conflict, does not appear imminent for the world as a whole. It thus seems unlikely that contemporary large states will agree to be bound by rules that they find inconvenient.

The refusal to be bound has predictable consequences for states, and these consequences mimic those observable at the individual level. Principally, such states bend the rules of international institutions when their own interests or those of their friends are implicated by this action. Theory predicts that such bending of the rules will never go far enough to wholly impair the functioning of the organization, because large states find these organizations useful. Rather, it is likely to take the form of persistent undermining of standards, creating moral hazard in much the same way as when an individual need not bear the cost of their own risks. Much work in this area has centered on biased lending by the International Monetary Fund (IMF) and the World Bank. For example, Lipscy and Lee (2019) argue that the IMF is a biased global insurance mechanism, in the sense that moral hazard associated with IMF lending is distributed asymmetrically across the international system.[2] As the authors put it, "[t]oo big to fail" is a function "not of economic importance per se, but of political clout vis-à-vis the IMF" (36). They argue that the consequent capital accumulation by developing states not closely allied to the United States and Western Europe represents "a perverse flow of capital from poor to rich countries" (37) that may contribute to economic distortions. In addition, the weak conditionality imposed on US allies has predictable results – meagre international reserves, frequent IMF intervention, and frequent financial crises.

[1] For an arresting portrayal of this transition, see Aeschylus' *Eumenides.*

[2] Moral hazard is an increase in risky behavior as a response to insurance coverage, particularly when the costs are borne by another party, and it arises particularly in situations of private information or divergent incentives.

This imbalance is reflected in both loan volume and frequency. Barro and Lee (2005) find that IMF loans are both larger and more frequent when a state is more connected (politically and economically) to the United States and major European countries. They observe a similar effect for states with larger quotas and more professional staff at the IMF. Using these results as instrumental variables in an estimation of the effects of IMF lending on economic growth, the authors find that a higher loan-participation rate reduces economic growth. Such lending also exerts small negative effects on democracy and the rule of law. Similarly, Kilby (2009) argues that the conditioning of loans on macroeconomic reforms (aid conditionality) is undermined by persistent pressure for lax enforcement on behalf of powerful donors and their allies. In a study of the United States and the World Bank, Kilby finds that World Bank disbursements are less dependent on macroeconomic performance when the countries in question are allies of the United States, as measured by UN voting records. For these countries, there is little evidence of enforced conditionality and no substantial link between macroeconomic policy and Bank disbursements. Kilby presents donor pressure as an important alternate explanation for the failure of conditionality.

In a study of 53 African countries between 1990 and 2000, Stone (2004) found that the IMF's loans-for-reform program lacked credibility because donor countries (particularly Britain, France and the United States) habitually intervened to prevent rigorous enforcement of loan conditions. He concludes that IMF independence is a prerequisite for effective reform advocacy, and that until this is achieved its conditions will not be taken seriously by protected states. He argues that it is this lack of commitment by member states rather than the IMF's pursuit of its own interests that induces non-enforcement. The IMF is effective in creating incentives for reform when its threats to withhold financing are credible. The obstacle to enforcing these threats is interference by the major donor countries. Thacker (1999) finds that movement toward the United States (as measured by UN voting) can significantly increase a state's chances of receiving a loan from the IMF. He finds that the end of the cold war is associated with an increasing tendency by the United States to use the IMF to "reward friends and punish enemies" (70), and that before this time the US deployed its influence transactionally, to induce states into its orbit rather than to reward those already there. He uses this finding to cast doubt on the

agentic capacity of international organizations, arguing that their behavior frequently satisfies the interests of their most powerful members.

The strategic interaction surrounding IMF lending appears to cut in both directions. Small states can benefit in several ways from their interactions with the large states that control IMF lending. Rickard and Caraway (2014) find that national governments leverage upcoming elections when negotiating with the IMF. The authors argue that governments desire less-stringent labor market reform conditions attached to loans, and use the specter of looming elections to induce concessions from the IMF. Specifically, loans concluded within six months of an upcoming election have less-stringent labor market conditions attached, ceteris paribus. The authors point out that this finding diverges from the IMF's technocratic image, and also that this finding ironically goes some way towards eliminating the democratic deficit that allegedly plagues international organizations – after all, if the IMF is negotiating with an eye to domestic impact, then voters' wishes are being considered. Similarly, Dreher et al. (2009) find a robust positive relationship between temporary Security Council membership and participation in IMF programs, even when they account for economic, political and country-specific factors. They find additional evidence that Security Council membership reduces the number of conditions included in IMF programs. To explain this variation, the authors argue that governments will use their influence in one international organization to gain leverage over another, and that in this example developing countries value IMF loans more highly than their security council votes, while developed countries may make the opposite calculation. The authors caution that the politicization of such international organizations does not neutralize their value, and that "[t]he alternative to a world with politically manipulated international organizations may be one with no international organizations at all, where major powers pursue foreign policy unilaterally" (751).

Does the clear presence of bias undermine the utility of the Bretton Woods organizations? Vaubel (1983) makes the provocative argument that there are no valid economic grounds for IMF lending, though it does play a crucial role in the dissemination of monetary and financial information. He argues that IMF leading "weakens the incentives to avoid mistakes," creating a moral hazard in international finance. However, the relative absence (6) of systemic

competitors to the IMF may actually insulate it from undue influence in comparison with its peer institutions. Lipscy (2017) argues that international institutions that face extensive competition in their particular issue area offer attractive outside options to member states (forum shopping, though Lipscy does not use this term). The accessibility of these outside options limits the amount of deviation from the prevailing balance of power, or as Lipscy puts it, limits the "possibility of distributive outcomes that poorly reflect underlying state capabilities" (353). However, path-dependent distributive outcomes are more sustainable among institutions with limited outside options. In an examination of the Bretton Woods institutions (the IMF and World Bank), Lipscy finds divergence in bargaining outcomes consistent with his theory: that the institution with few competitors (the IMF) exhibits more path dependency than one with many competitors (the World Bank), attributable to higher network effects and barriers to entry.

It is important to note that the domestic support for the IMF may be conditional on the benefits derived from the moral hazard problem. Broz and Hawes (2006) examine the micro-foundations of IMF support and demonstrate the impact of these interests on congressional voting. They find that money-center banks actively seek to exert influence by supplying legislators with campaign funds, and that members of Congress appear to be responsible to these appeals in their subsequent votes. In addition, they find that members of Congress are taking account of unorganized constituency groups benefitted or harmed by IMF activity. Those members representing districts that gain from trade are more likely to vote in favor of funding the IMF, and vice versa, as would be predicted by the Stolper-Samuelson theorem. Finally, they note that major banks influence the IMF directly via access to the Fund's officials and staff, and they find that IMF policy moderately reflects the interests of major international banks. It is not difficult to imagine that attempts to rigidly impose conditionality would inhibit these banks' activities in the affected states, and that they might vigorously oppose such impartiality.[3] In related work, Broz (2011) finds that support for the IMF is generally higher in the Senate than in the House, and he attributes this higher level of support to the larger geographic constituencies of

[3] However, it would likely be in banks' long-term interest to support impartial conditionality. Such impartiality would reduce the incidence of banking crises and in the long run banks' revenue would be greater. There exist social mechanisms to make these bargains within individual societies, but at the international level there is no sovereign to circumvent this particular prisoner's dilemma.

Senators rather than their longer tenure of office. He further finds that ideology is a strong determinant of congressional voting on the IMF, specifically that left-wing legislators are more than 30% more likely to support the IMF than their right-wing counterparts.

The moral hazard problem at the international level is unlikely to be overcome. The many remediations of the problem at the individual level all rely on the intervention of an outside force. At the top of any hierarchy, such a force would need to bootstrap itself into existence (Hardin 1997). In the absence of an exogenous threat, this is unlikely. However, the independence of international organizations is a norm that can be strengthened or abandoned. Attempts to consciously strengthen (weaken) it will reduce (increase) the range within which nonconditionality is possible. Another strategy might be to give the IMF a monopoly on international lending, increasing its organizational path dependency along the lines suggested by Lipscy (2017). However, it is important to emphasize that there are structural reasons why the competition among units that led to the emergence of genuinely impartial institutions is unlikely to be replicated at the level of the international system.

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