

Democratic Deficits in International Institutions

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Are the IMF, World Bank and UN Characterized by a Democratic Deficit? If So, Do Such Deficits in Legitimacy and Accountability Matter?

In the last 150 years, the world has witnessed an unprecedented growth of the laws operating beyond state boundaries and institutions with international coverage (Scholte, 2004, p.211). However, these international institutions have too few, if any, formal accountability mechanisms (ibid.). Such instance of separation of the process of decision-making from political accountability is called 'democratic deficit' (Nanz and Steffek (2004, p.314). In academic literature, there is significantly less debate on whether there is a democratic deficit in the UN, IMF and World Bank than about what regulatory mechanisms should be established and which actors should be empowered.

This essay will consider two of the few theories concerned with democracy and accountability, but the ones that are most prominent. One is a deliberative democracy theory, and the other is the liberal theory of international relations. Also, since these theories emphasize different aspects of democracy, one might expect that their views are mutually exclusive. However, this essay will demonstrate that their ideas complement rather than contradict each other. Nanz and Steffek (2004, p.315) explain that the theory of deliberative democracy implies that legitimacy is generated by deliberation between various actors, and decisions are reached through a process where participants scrutinize each other's interests and justify them in view of the common good. The central idea of liberal theory is that of a civil society. Civil society is a political space where individuals and voluntary associations seek to shape the rules that govern particular aspects of social life (Scholte, 2004, p.214). Citizens are brought together into civil society groups in attempt to shape the formal laws and informal norms of social interaction (ibid.). Firstly, this essay highlights the main arguments implying the absence or presence of democratic deficit in the UN, IMF, and World Bank. Secondly, it discusses whether this issue matters or not, and demonstrates the consequences of democratic deficit in the UN using the case study of Iraq.

There is some evidence suggesting that the UN, IMF and World Bank have already improved their legitimacy in many ways. Therefore liberal theorists argue that international institutions admitted the need for wider participation; such need was numerously reiterated in World Bank and IMF reports (World Bank, 1992, 1996, 1999; IMF, 1997, 2000, all cited in Woods, 2002, p.28). Consequently, now the UN, the World Bank, and the IMF are making significant effort in developing consultative links and deeper relations with NGOs. They have developed elaborate websites and upgraded other public communications to address civil society audiences (Scholte, 2004, p.215). However, such practice creates opportunities for tensions and problems to local and international domains of politics (Woods, 2002, p.28). More precisely, one of the most prominent issues is who should decide which NGOs to include or consult with in national and international negotiations (ibid.).

In case of the UN, there are some scholars arguing that its most powerful organ, the Security Council, is democratic. Liberal institutionalism theorists, Dervis and Ozer (2005, p.55), explain that in addition to its Permanent Five members, 10 nonpermanent members are elected by General Assembly, and they have the power to overrule the decision of the Permanent. In order to do so, at least seven nonpermanent members have to block a resolution agreed by the Permanent Five (ibid.). Although nonpermanent members were given such powers, there was no single case when these powers were exercised (Dervis and Ozer, 2005, p.55). Additionally, liberal theorists admit that the UN, in order to find a place in decision-making for civil society groups, includes a parallel civil society forum

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in each Global Summit (Scholte, 2004, p.214). Also, the UN created a panel of Eminent Persons on the United Nations Relations with Civil Society to propose improvements in the area of the NGOs' involvement into UN's practices (Scholte, 2004, p.216).

Moreover, both the IMF and World Bank are held accountable on the contrary to some views. The executive boards of these institutions maintain the closest possible oversight over their programs, which cannot be compared to the control exercised over any existing company (Stiglitz, 2003, p.118). Furthermore, while boards of directors meet four times a year at its most, the IMF and World Bank are monitored by full-time boards which, in turn, are accountable to governments (*ibid.*).

In respect to allocation of voting rights, according to deliberative democracy theory, the World Bank performs better than the IMF. Its executive board directors belong to finance ministries and also to aid agencies (Stiglitz, 2003, p.120). In result, the views presented in the World Bank are broader because of conservative views of the former and more liberal views of the latter (*ibid.*). Furthermore, on the daily basis, the World Bank deals with environmental, health, and education ministries (Stiglitz, 2003, p.120).

Nevertheless, there is little surprise that the current state of power allocation within the UN is very controversial. In spite of the fact that nonpermanent members can potentially overrule the Permanent Five's veto power, the problem that is much deeper has been left unaddressed. The existence of the Permanent Five in the form it was established is more than just outdated and undemocratic (Alvarez, 1996, pp.1-2). The deliberative democracy suggests that five countries received their powers by historical accident at the end of the WWII, at the time when India and many Third World countries were nothing but colonies, but the current state of affairs is far from that being the case (Stiglitz, 2003, p.122). Another evidence of democratic deficit is the lack of identifiable decision-makers that would be directly accountable and punished if they made the wrong decision (Zurn, 2004, p.260). Also, liberal theorists like Scholte (2004, p.216) argue that most civil society arrangements are quite new and most global civil servants are inexperienced in dealing with them. Another reason for criticism of such arrangement is that the civil society professionals are mainly recruited from Northern, urban, English-speaking elite (*ibid.*). Thus, there is a failure to engage with wider constituencies (Scholte, 2004, p.216).

Also, deliberative democracy theorists harshly criticize the IMF and World Bank for their lack of accountability. Stiglitz (2003, p.112), being one of them, argues that the World Bank and IMF both suffer from lack of accountability. This is so due to the reason that these institutions pursue multiple objectives; when they fail one of them, they can always claim that they were trying to accomplish absolutely different objectives (Stiglitz, 2003, p.112). Therefore, the assessment of their performance is very difficult, and consequently, there is little opportunity for holding these organizations accountable (*ibid.*). There are many examples of times when the IMF failed to pursue its primary objective, the enhancement of global economic stability. One of them is how the IMF had handled the East Asia Crisis of 1997. Soon after the East Asian crisis began, the IMF claimed that its interventions showed signs of success (Stiglitz, 2003, p.114). In contradiction to the claim, the unemployment rates were rising dramatically, wages were down, and the GDP of countries like Indonesia was fifteen percent lower than it was before the crisis (*ibid.*). Furthermore, instead of ensuring that East Asian countries survive and recover from crisis as fast as possible, the IMF enforced market liberalization upon them (Stiglitz, 2003, p.113). The way the IMF chose to deal with this crisis hints at the possibility that it was working in the interest of certain financial circles in the developed countries which benefit from Asian market's liberalization (*ibid.*). In addition, the IMF board suffers from a lack of representativeness, and this issue is one of its most obvious weaknesses, criticized by deliberative democrats, and cosmopolitan theorists, such as David Held. The voting shares are allocated on the basis of an outdated economic weight of a country (Held, 2004, p.370). Since more than half a century ago, economic weights have changed significantly, but there are no signs of the adjustment of voting rights to reflect this change (*ibid.*). The implications of that is an inability to develop a substantial technical expertise and absence of constructive negotiation processes (Held, 2004, p.370).

Two further considerations cause even deeper concern. Deliberative theory supporters Verweij and Josling (2003, p.4) argue for the need to take into account the dependency of states on the IMF and World Bank. For instance, the international debt crisis of the 1980s has made many developing countries dependent, and by 1990, 14 percent of the Third World's debt was in the hands of the World Bank (*ibid.*). To make matters worse, after the collapse of the

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USSR, the IMF and World Bank were invited to assist the Eastern European states in switching to market-based economies (Verweij and Josling, 2003, p.4). Thus, to the extent these organizations are undemocratic, more public policies are implemented and influenced by unaccountable organizations (ibid.).

Also, because the IMF and World Bank both belong to the group of Bretton Woods institutions, the latter suffers from the failures of the IMF in many ways. The World Bank refuses to openly consider and develop policies that conflict with the views of the IMF (Stiglitz, 2003, p.120). Therefore, due to the fact that the IMF was the one setting the framework for misguided-structural adjustment policies as it was in the case of East Asian crisis, the reputation of the World Bank is not significantly higher than that of the IMF (Stiglitz, 2003, p.120). Nevertheless, this is not to say that the IMF is the only reason why the World Bank is thought to be illegitimate and unfair. For instance, there were several cases of people adversely affected by dam constructions funded by the World Bank. Although, liberal theorists argue, these cases had serious consequences for some groups, with the help of NGOs the construction was stopped and those that were affected received good compensation arrangements (Khagram, 2000, pp.83-114). Furthermore, one starts to wonder whether the World Bank has inherently severe accountability problems when the degree of failing projects is as high as it was between 1990 and 1999 (Verweij and Josling, 2003, p.7). Numerous reports during that period found that World Bank's projects have a low degree of success, with the rate of failure being as high as 59 percent (ibid.).

There are some that might view the international organizations as the triumph of global technocracy (Nanz and Steffek, 2004, p.317). In political theory, it is called Weber's bureaucracy model. Thus, the marginalized minority of its supporters see no need for including political elements into the structure of those organizations (ibid.). Ensuring the highest professional expertise is the solution to the problem of legitimacy (Nanz and Steffek, 2004, p.317). Furthermore, international institutions hitherto cannot be democratic (Dahl, 1999, pp.19-36). The reason is that elites that hold professional expertise in international policy are not representatives of the people (ibid.). Also, there are two conditions that need to be addressed before the introduction of the concept of democracy into the culture of international organizations (Dahl, 1999, pp.19-36). These are the existence of shared collective identity and a common political culture, and both of them are lacking in the international domain (ibid.).

Moreover, even if Weber's theory is understood in deliberative as well as technocratic terms, it is believed that it is wrong to assume the need for political control over the institutions with sector- and policy-specific functions (Steffek, 2003, p.251). In other words, international institutions should not be analyzed within the state-framed understanding of decision-making, simply because they are not states (ibid.). They do not decide on every political issue, compared to nation-state governments (Steffek, 2003, p.251). Additionally, the domestic analogy is believed to be inappropriate because the international institutions do not employ police-like means of coercion (Steffek, 2003, p.259). Thus, instead, international bodies of governance prefer to rely on a variety of non-coercive means to ensure rules compliance (Chayes and Chayes, 1995, pp.1-4). Furthermore, according to this view, the ultimate basis for liberal society is common purpose, and a regime can be legitimized based on that condition (Steffek, 2003, pp.256-257). So, because international institutions such as the UN, IMF and World Bank were established on the basis of certain purposes that were commonly agreed upon, they are hitherto legitimate (ibid.).

The reasons why solving the problem is important can be found in the suggestions for its improvement, since they explain what changes would take place. Deliberative theory implies that out of all possible control mechanisms, apart from direct democratic accountability, which seems problematic on the international scale, openness and transparency are the most important (Stiglitz, 2003, p.133). These control mechanisms will ensure that there is a check on the most abusive practices (ibid.). Also, they will increase the likelihood that international institutions pursue the policies that are not only in the interests of the financial community, but in the general interest (Stiglitz, 2003, p.133).

The liberal theory complements deliberative democracy's view by suggesting that well-conducted relationships with civil society groups will enhance the legitimacy of the international bodies because of the increased public participation and accountability (Scholte, 2004, p.217). This will be done once policy practices become publicly visible, because the civil society will become capable of advancing democratic accountability by performing watchdog and evaluation activities (Scholte, 2004, p.219). More precisely, civil society has the potential to become a

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mediator between international institutions and citizens (Nanz and Steffek, 2004, p.323). Therefore, civil society will be able to voice the concerns of the citizens, and explain the processes taking place within international institutions in order to enable the citizens to shape and scrutinize the decision-making (ibid.). Thus, civil society provides international organizations with opportunity for amending and scrutinizing their policies, which will ultimately result in increased effectiveness of the policy programs.

On the ground, one may become convinced in the need of reforming international organizations after investigating how democratic deficit impacted one particular country in the 1990s in more detail. The case of Iraq explicitly demonstrates the structural weaknesses in accountability of the UN and its inability to escape being captured by the interests of the US. Gordon (2006, p.81) states that the political accountability provided by the veto, that is supposed to ensure that no single state can pursue its interests at the expense of other, was overruled by the 'reverse veto'. Since Resolution 661 (the ban on export and import of goods in Iraq) had already been passed, in order to annul it, the Security Council needed to pass another resolution, but it could not be passed because the veto players exercised their power of veto (Gordon, 2006, p.82).

By the mid-1990s, many UN agencies issued reports describing deteriorating conditions in Iraq (ibid.). In 1995, China, Russia and France attempted to pass the resolution for lifting the sanctions imposed on Iraq, yet because the US and UK did not agree with the rest, it could not be passed (Gordon, 2006, p.82). Furthermore, if the meetings of the committee overseeing the 661 Resolution had been public, the committee might have come under serious political pressure from many actors because banning food imports to Iraq would be hard to justify (Gordon, 2006, p.83). This lack of justification was becoming increasingly problematic because food and water shortages were more prominent (Gordon, 2006, pp.83-85). Since the 661 Committee operated by vote, not by accordance with specific criteria, there were many inconsistencies (ibid.). To make it worse, because the US blocked all goods for the electricity sector, the many water and sewage treatment plants could not be repaired (UNICEF, 1999, p.10). Due to those conditions, the child mortality skyrocketed by 250 percent and remained high afterwards (UNICEF, 1999, p.10).

Thus, Alvarez (1996, pp.1-9) explains that the absence of judicial review of the actions of the Security Council makes it impossible to avoid, or at least stop, the sanctions that caused irreparable harm to Iraq's people. The combined effects of politics of consensus, secrecy, and absence of judiciary oversight make it reasonable to suggest that the Security Council is characterized by the absence of any form of accountability (Alvarez, 1996, pp.1-2). The Security Council being the most powerful body of the UN has massive powers, yet nobody holds it accountable. The case of Iraq successfully demonstrates the consequences for the potential of countries that disagree with any member of the Security Council, and explains why democratic deficit is such a problem.

To conclude, this essay explained that the UN, IMF, and World Bank are in fact characterized by democratic deficit. The deliberative democracy theory successfully argues why this is being the case and why it is so important. In all of these institutions, the chains of accountability are very long, indirect, and consequently, very weak. Moreover, the allocation of votes in the UN, IMF and World Bank is very outdated and unfair, although for the latter institution, this is less of an issue. The consequences of the lack of accountability are very severe; the prioritization of special interests causes political and economic instability. Furthermore, another set of the implications of the lack of accountability is that its absence is very damaging both for the reputation of the institutions and their programs. Thus, it is no surprise that the policy programs of the international organizations like IMF and World Bank have low rates of success. The theory suggests the need for a wider circle of actors to be engaged in the policy-making of these institutions. This way it will become possible to ensure that the institutions serve the interests of all, not of some privileged few, and the institutions will become legitimate and their policies will become more successful.

The liberal theory of international relations assigns a special place to civil society groups, in other words NGOs, in this process, and also is very good at explaining the lack of legitimacy and accountability in the UN, World Bank, and IMF. Thus, according to the theory, the greater involvement of NGOs will provide the necessary link between the institutions and the people. This way, the citizens will become able to express their view, point at their needs, and provide the necessary supervision over the activities of international bodies. Furthermore, the civil society groups' involvement will make the institutions more deliberative, on the basis that they become transparent and open.

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Therefore, if they become transparent, the nuances of the problems, such as the absence of regulation over the Security Council of the UN, will become more evident and ultimately easier to address. This way, liberal theory, by emphasizing the need for the inclusion of civil society in the processes of decision-making, not just implementation, admits the need for the changes suggested by the theory of deliberative democracy. I argue that both theories provide a constructive assessment of the problems that these institutions face, and there is little doubt about the need to address these issues.

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Date written: 04/2012