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The Common Pool Dilemma of Global Public Goods: Lessons from the World Bank's Net Income and Reserves

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Summary. — The function of international organizations (IOs) as suppliers of international or global public goods (GPGs) has received increasing attention in recent years. But in a world with many claimants and limited resources, GPGs are more likely to have common pool properties than be pure public goods. The paper develops a joint-products model of public goods supply by international organizations, examining how specific institutional features of international organizations affect the supply of GPGs. The sources and distribution of the World Bank's net income—the single largest source of discretionary funds available annually to an IO—are used as the lens to analyze the issue. The paper examines the tension between control rights on net income (which reside primarily with nonborrowing shareholders) and the sources of net income, which largely lie with minority, borrowing shareholders. The analysis suggests that while the joint-product model of member-country support for international organizations has much merit, institutional features that were incorporated when these institutions were established sharply affect both the absolute magnitude and the distribution ratio of the benefit streams. © 2002 Elsevier Science Ltd. All rights reserved.

Key words — international organizations, World Bank, global public goods, common pool, international relations

1. INTRODUCTION

The decisions of the Executive Board of the World Bank are usually made by consensus. In July 1998, the Executive Directors of the World Bank considered certain resolutions that bore on the institution's net income and reserves, and then presented measures to augment them. Unlike most other international organizations, the World Bank and other international financial institutions generate substantial resources—in the form of net income—through their operations. In an institution where contested votes are rare, the resolutions barely passed—indeed the vote was the closest in the World Bank's history. [1] The resolutions were approved by just nine of the 24 executive directors (representing 51.7% of the votes) while 12 executive directors (representing 36%) voted against the resolutions and an additional three executive directors (representing 12.3%) abstained. The majority vote represented less than a fifth of the world's population and just a slightly larger proportion if measured by the number of member countries of the institution. [2] Indeed, the resolution would have been defeated were it not for informal arm-twisting of a critical swing vote—that of South Korea–which at the time was beset by a financial crisis and particularly vulnerable to pressure from the G-7 and the Bank's management. As the time for the voting approached, the constituency represented by the Executive Director for South Korea vacated his Chair and left the meeting, whereupon the Alternative Executive Director for the constituency (representing Australia) occupied the chair and cast the constituency's vote in favor of the proposal. Although South Korea's voting share was only 0.6%, a vote by a chair carries the voting power

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of the entire constituency represented by the chair—the votes cannot be split. Had the South Korean Executive Director cast his vote against the management's proposal or even decided to formally abstain, management and the G-7's proposal would have been defeated. At the time, the voting share of the constituency represented by South Korea in the World Bank's board had 3.09% of the vote. [3]

Why was the issue so contentious that it could produce such deep fissures in the institution? At one level, as befits a financial institution, the vote ostensibly reflected the control rights of the World Bank's members by virtue of their differential shareholding. But a closer analysis of the underlying issues affecting the sources and uses of the World Bank's net income is much more revealing. During the 1990s, when demand for global public goods rose relative to the Bank's resources, the use of these resources became increasingly politically contentious. This paper argues that the distributional issues inherent in the vote were not just a matter of control rights exercised by shareholders. Rather, they speak to broader causal links between the institutional context of decision making and the priorities that prevail in the supply of international public goods (IPGs) or global public goods (GPGs). The paper further argues that an understanding of the historically locked-in institutional design features of international organizations is critical to understanding outcomes in the international cooperation mediated by these organizations.

The task of understanding international cooperation (and more broadly international governance) has generated much interest within international relations scholarship in recent years. The literature has identified international organizations (IOs) as a key mechanism for transnational cooperation, conflict management, and collective action. It has also pointed out that they are important, although by no means exclusive, institutional mechanisms for providing GPGs. [4] Intergovernmental IOs, the focus of this paper, include bodies that range from formal organizations such as the United Nations (UN), the World Bank, and the International Monetary Fund (IMF) to less formal arrangements such as the groupings of countries into the G-7, G-10, G-20, G-24, and G-77. All of these institutions serve similar purposes: they generate information and lower the costs of undertaking transactions, encourage members to think about their common future, create linkages across issues, and serve as agents that both create and diffuse ideas, norms, and expectations. [5] Furthermore, they allocate scarce resources—and so have a hand in their attendant distributional consequences and conflicts. They are arbiters in facilitating negotiations, and also managers who help enforce rules in the form of sanctions, conditionalities, or direct force. On the one hand, IOs provide and embody global rules, standards, and dispute resolution mechanisms—they are intermediate GPGs in and of themselves. At the same time, they help secure and supply other global public goods that are final objectives, such as peace, economic order, and financial stability.

Prominent theories of international cooperation share a presumption that interstate bargaining is inherently costly, entailing an investment of time, money, energy and personnel. [6] This theoretical scaffolding, however, is for the most part weak with regard to the role of IOs. Indeed, it has been observed that states take IOs more seriously than scholars. [7] Regime theory focuses on the institutional organization of international cooperation; while insightful, it has little to say either on the operational roles of IOs or on the issues of distribution and power in international politics that may affect these roles. [8] Decentralized cooperation theory argues that states solve collective action problems in the international arena through strategies of reciprocity. [9] While it points our attention to institutional capacities other than centralized enforcement in mediating international relations, it too underplays the role of formal International Organizations. IOs are also of little import to the *realist* school of international relations, since they are skeptical that states would cede any meaningful authority to these institutions. [10] A contrasting perspective argues that key properties of formal organizations—centralization and agency—allow states to achieve collective goals through IOs that they cannot achieve on a decentralized basis. [11]

Although IOs do suffer from a considerable mortality rate, for the most part their "stickiness" is indicative that states see some net benefits in participating in them. [12] An interesting theoretical insight into the continued support for IOs builds upon the work of Lawrence Broz (1999), who explains the collective action behind the creation of the US Federal Reserve by way of a joint-products (selective incentives) model. The supply of public goods