Controlling Institutions: How Greater (and Lesser) Powers Govern International Organizations

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Stone, Randall W. (2011) *Controlling Institutions: International Organizations and the Global Economy*, Cambridge: Cambridge University Press, ISBN 978-1107005402, 256 pages.

The dominance of the U.S. in the International Monetary Fund is not a novel argument in the existing literature on international organizations. Both practitioners and scholars have made the control over international organizations in global economic policy by powerful states a subject of plentiful research, staunch criticism, and political protest. After all, for decades neoliberal institutionalism has argued that international organizations reflect the preferences of those agents that possess greater capacities, i.e., the interests of greater powers. Randall Stone, a professor of political science at the University of Rochester, departs from this conventional theoretical wisdom in his book *Controlling Institutions,* in an effort to demonstrate *how* the U.S. dominates IMF with only 17 percent of vote shares. His theoretical break from the concept of anarchy and a much more nuanced analysis of the mechanisms of control within an international organization stands out as a compelling theoretical advancement in the field.

The book is structured in three parts. First, the author presents his theoretical framework of analysis stemming from rational choice approach and proposes a new "model of informal governance" of an international organization conceived in game theoretic terms. In Part II, the author presents three cases: the IMF, WTO, and EU, to illustrate how his model of informal governance works in these institutions. Finally, Stone conducts statistical tests for three working hypotheses derived from the model and finds evidence from IMF data to support his conceptual model. Admittedly, Stone is best familiar and brings most of his statistical evidence to bear from his experience with the Evaluation Office of the IFM: a wealth of interviews, archival data, and new documents is provided to reveal the U.S. influence over IMF lending programs in Mexico, Russia, Korea, Indonesia, and Argentina.

Mile Kahler endorses the book, because for the first time, the very sources of powerful states' influences over global governance were given such rigorous treatment in the current literature on international organizations. To elaborate, the strength of the book lies in the innovative formal model based on the game theory of equilibrium of institutions that the author develops around the concept of "informal governance" in Part 1 of the book. To structure his argument, Stone distinguishes between the formal rules of cooperation, enshrined and endorsed within an international organization (e.g., voting rules, property rights, status quo distribution of costs and benefits) that are still an underlying element in global affairs; and informal rules—unwritten rules of exception for powerful principal states to protect their threatened core interests—that prevail in extraordinary circumstances. The gist of Stone's theoretical argument is that international organizations are hybrid institutions, inevitably operating under two sets of rules applicable either in normal conditions (formal governance) or in extraordinary circumstances (informal governance):

> Indeed, in the international system, formal and informal governance represent two sides of a social contract between strong and weak states, and the equilibrium outcomes

requires that both parties benefit enough from their interactions to make the contract profitable (Stone 2011:21).

At first examination, such argument is fully consistent with the expectations of rational choice logic applied to international organizations. However, Stone's proposition is novel in the way he further presents the cost-benefit analysis of cooperation for both the strong and the weak states: it is not merely the lower transaction costs for both sides achieved with the creation of an international organization that motivate states to cooperate, he argues. According to the author, leading states acknowledge that in order to reap benefits from converging interests as is, for instance, in the case of liberal market economy principles espoused by IMF, all participation in an organization needs to be voluntary, for only then may it be perceived as legitimate by weaker states. Recognizing the weaker states may be potentially overpowered within an organization, all sides concede to a degree of codification of their interactions in a set of *formal* rules designed to protect the interests of lesser powers.

In exchange, given that leading states may pursue many attractive options outside cooperative arrangements, lesser powers, on their part, "tacitly agree" to *informal* channels of influence exercised by leading states in cases when their essential interests are threatened within a policy-making decision process of an organization. This, however, often leads to "credibility problems" of international organizations being overpowered by leading states' strong-handed interventions. Regrettably, such is "the inescapable consequence of the fact that international organizations exist in a system of states with unequal resources" (Stone 2011: 224). Nevertheless, Stone is hopeful that as the competing power centers (that he leaves unspecified) become more diverse, rather than dominated by the U.S., the distribution of power will become more egalitarian in the twenty-first century, allowing for greater formalization of international organizations.

At the present point, as long as there is a discernible pattern of domination within an international organization, Stone's logical model of equilibrium institutions based on subgame perfection remains highly testable for those familiar with logical terms of game theory, which the author employs in Part I of the book. Although testing this model on examples other than IMF, WTO, and the EU is beyond the scope of this book review—indeed, such an endeavor would require a separate monograph to support or contradict Stone's arguments—the applicability of the model of informal governance, however, may foreseeably be questionable in the cases of those organizations that are structured and governed differently, without a clear pattern of domination by superpowers, such as Mercosur, ASEAN, and many others. Further, whereas the UN in general with the Security Council member states' dominating major decision-making processes would appear to be an excellent example to further explore Stone's informal governance model, it may require more elaborate game theoretical extensions to explain the functioning of other UN agencies, e.g., UNESCO, UNDP, and others. These theoretical propositions, however, merit a separate research project to reflect on the novelty or generalizability of Stone's theoretical arguments that are currently bound only to the three cases of Western-dominated organizations linked with financial interests that are discussed in Part II of the book, where Stone supplies in-depth case studies of how the informal governance is exercised alongside formal rules inside IMF, WTO, and the EU.

Whereas the author acknowledges that power distribution varies between international organizations, he nonetheless argues that since informal governance is ubiquitous, most international organizations may be discerned under the same logical model (with variations) that assumes full and perfect information and conceives of institutions and institutional design as endogenous. Stone's model does not recognize that international organizations may act in world politics in and of themselves, sometimes independently of states, as constructivist approaches would argue. To him, international organizations are rather well-behaved agents to whom the principals (member states) may delegate without second thoughts and scruples: "delegation is not costly for the principals because the agent's type is known" (Stone 2011:

26). Surely, such an assertion is relevant in the analysis of the IMF, but more diversely sampled research could reveal a wealth of intricate dimensions of relations between member states and international organizations in the area of delegation of authority, as the recent work in principle-agent analysis demonstrates. With such promising directions of future research and replication, Randall Stone's book stands out as a noteworthy extension and theoretical advancement in the tradition of rational choice analysis of international organizations. The book is an insightful read for scholars and graduate students of international relations and international organizations in particular.