Buying Bretton Woods

James Raymond Vreeland
Georgetown University
jrv24@georgetown.edu

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Abstract One reason for the Western European dominance of global governance is that rich governments are elected by countries of other regions to represent them in international committees. This paper quantitatively explores whether poor governments that vote for a rich one are more likely to receive project level foreign aid. The analysis in this paper considers the case of Switzerland and the Bretton Woods Institutions; results confirm the hypothesis. The paper concludes that poor countries face a collective action problem when it comes to electing representatives, and a solution may be to mandate regional representation.

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1. Introduction

Membership in the Bretton Woods Institutions is practically universal. Yet their most important operations are governed by small committees elected by the broader membership. The Executive Boards of the World Bank and the International Monetary Fund (IMF) are dominated by Western Europeans and their descendents (see figure 1).[1] Part of the reason for this is that they have inflated vote shares (see, for example, Woods 2005 and Buira 2005). A further, less explored problem is that many small Western European governments recruit smaller countries into their voting blocs. How do so many European countries win seats?

Consider Switzerland. Tiny but rich, its nominal gross domestic product (GDP) is about half a billion dollars, substantially larger than that of the smallest G20 member.[2] But the purpose of the G20 is to expand global governance beyond the Western European club. With seats for the United States, Germany, the United Kingdom, France, Italy, Canada, Australia, and one omnibus seat for the European Union, there just is not enough room for the Swiss.

Yet Switzerland finds room for itself at the World Bank and the International Monetary Fund (IMF). Since joining in 1992, Switzerland has put together a group of states from Central Asia, Western Asia, Eastern Europe, and Southern Europe – winning enough of their votes to secure seats on both Bretton Woods Executive Boards. This turns out to be important for global representation. For, no Director comes from Central Asia or Eastern Europe. The closest these regions come to seats at these tables is having the Ukraine play alternate for the Netherlands, and Poland play alternate for Switzerland.

How does Switzerland do it? One potential angle that any rich enough country may try is foreign aid. As Hans Morgenthau, one of the founders of realist international relations theory, notes: "the transfer of money and services from one government to another performs here the function of a price paid for political services rendered or to be rendered" (1962: 302). There is a substantial literature on how the United States and other G7 countries make use of foreign aid – both bilateral and multilateral – to pursue foreign policy objectives.[3] There is less work focusing directly on smaller countries, like Switzerland.

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[1] For a study of the dispersion of vote shares – and thus loss of accountability – of the Executive Boards of the IMF and the World Bank, see Vaubel (1986, 1996). For an alternative view, see Willett (2002). On the question of accountability and the new transparency, see Weaver (2009). For a comprehensive review of the effectiveness of the IMF, see Conway (2006).

[2] South Africa, whose GDP is less than $300 million (IMF 2008).

[3] The growing literature includes: Alesina and Dollar (2000), Andersen et al. (2006), Bearce and Tirone (2009), Bermeo (2008), Berthélemy and Tichit (2004), Boone (1996), Broz and Hawes (2006), Burnside and Dollar (2000), Bueno de Mesquita and Smith

Thus, this paper takes a narrow approach to exploring the myriad ways in which small Western European countries have come to dominate global governance. I consider the use of project level foreign aid from Switzerland to other countries. I hypothesize that members of Switzerland's World Bank/IMF bloc are more likely to receive foreign aid than other countries, and that they receive a larger share.

There are several reasons to study the Swiss case – both substantive and methodological.

Switzerland is a relatively new member of the international financial institutions. So, its role is not the result of historical ties dating from colonial times or from the founding of the Bretton Woods Institutions. The relative newness of Swiss membership also circumvents a typical problem in analyzing foreign aid: older data are not as available as more recent data. Data are available for the entire history of Swiss membership.

Another reason that makes this an interesting case is that, while clearly Western European, Switzerland is not a member of the European Union. So, if global governance is reorganized along regional lines with one seat for Europe, Switzerland may be left out of having any representation. Switzerland has already been left out of the G20, so it has this added incentive to play a role in other institutions.

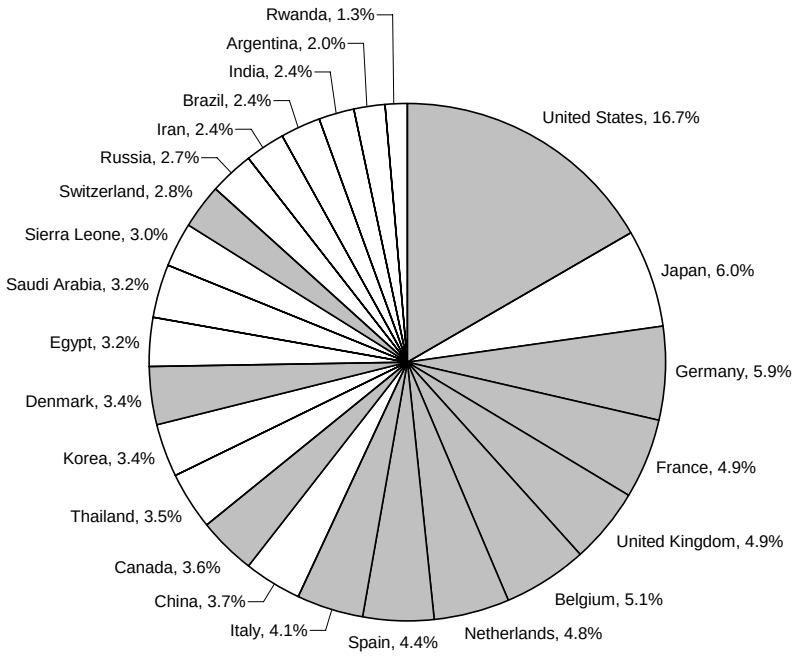
Finally, this case sets the groundwork for other studies of the use of foreign aid to gain a greater role in global governance. Future work should examine the ways in which more congruent blocs elect their directors. To begin this work, however, the incongruent nature of the Swiss bloc – which includes countries that simply share no substantial historical, cultural, or even strong economic ties with Switzerland – makes this case ripe for study. If ever there were a suspicious case, it would be Switzerland.

To anticipate my findings, there is a clear empirical relationship between membership in the Swiss bloc and Swiss foreign aid. The relationship holds for both the likelihood of receiving any aid and the size of share of Swiss pie received. The introduction of control variables for other attributes of states appears to increase the statistical significance of the finding.

The paper is organized as follows. The next section presents a brief background on the Executive Boards of the World Bank and the IMF, as well as the Swiss bloc. The section after that presents the data, analysis, and results. A brief conclusion follows.

(2007), Canavire et al (2006), Copelovitch (2010), Dollar and Pritchett (1998), Doucouliagos and Paldam (2009), Dreher et al (2009a,b,c), Dunning (2004), Easterly (2006), Fleck and Kilby (2006), Headey (2008), Kaja and Werker (2009), Kilby (2009), Kilby (2006), Kuziemko and Werker (2006), Lancaster (2006), Marchesi, Silvia and Missale (2004), Meernik et al (1998), Mosley et al. (1991), Oatley and Yackee (2004), Schneider and Tobin (2010), Schneider et al. (1985), Stone (2002, 2004, 2008), and Thacker (1999).

Figure 1: Seats around the IMF Executive Board (by Director's total vote share, 2010)



2. Background

International financial institutions grant voting power according to economic size. This is true at the IMF and the World Bank. It is also true in the various regional financial institutions (the Asian Development Bank, the African Development Bank, and the Inter-American Development Bank), although in the regional organizations give more weight to countries from the region. Basically, this is how it works: Members have votes according to the financial contributions that they provide the organization, and the financial contributions, in turn, are determined by economic weight.[4]

With 186 countries as members, day-to-day decision making at the Bretton Woods Institutions must take place amongst a narrower set of "Executive" countries. Currently,

[4] Economic weight is, of course, not straightforward to measure. In 2008, the IMF made public their formula to calculate economic weight. The variables they use include: (1) a blend of GDP converted at market rates and PPP exchange rates, (2) the annual average of the sum of current payments and current receipts, (3) variability of current receipts and net capital flows, (4) the twelve month average over a year of official reserves (foreign exchange, SDR holdings, reserve position in the Fund, and monetary gold). Note that the last variable includes a weight for the lagged share of votes at the IMF.
See: http://www.imf.org/external/np/exr/ib/2008/040108.htm.

the Executive Boards of the World Bank and the IMF both have 24 Directors.[5] The "great powers" each have enough votes to appoint a country-specific Director to represent them on the Executive Board.[6] The countries from the "rest of the world," who account for the majority of voting power, elect the remaining 16 Directors – elections are held every two years.

At present – both at the World Bank and the IMF – there are eight governments with country-specific Directors: the United States, Japan, Germany, France, the United Kingdom, China, Saudi Arabia, and Russia (in order of vote share).[7] Note that both institutions allow the top five members to appoint their Director. China, Saudi Arabia, and Russia have enough votes to elect their Directors, so these Directorships are single-member.[8]

The "rest of the world" pools their votes into blocs to elect the remaining Directors. There is a kind of free market for Directorships – there are no rules, though there are

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[5] Recent G20 meetings have called for a reduction of the IMF Executive Board to 20 members. Reducing the size of the World Bank Executive Board is not as straightforward. Since the Boards currently mirror each other, with some blocs trading the Directorship at one institution for the Directorship on the other, it will be interesting to see how deals are negotiated if the Boards are no longer of the same size.

[6] Currently – both at the World Bank and the IMF – there are eight governments with a country-specific Directors: the United States, Japan, Germany, France, the United Kingdom, China, Russia, and Saudi Arabia. Note that both institutions allow the top five members to appoint their Director: United States, Japan, Germany, France, and the United Kingdom. China, Saudi Arabia, and Russia have enough votes to elect their Directors, so these Directorships are singe-member, however, they are elected for two year terms and cannot be recalled at any time the way an appointed Director can be. Considering how under-represented most emerging market and developing countries are, it may seem strange to see Saudi Arabia among the top vote holders. This country saw its vote shares increase dramatically in the petro-boom of the 1970s. Lagged reserves at these institutions play a role in reformulated new vote shares, so Saudi Arabia, like the developed countries with inflated vote shares, continues to be over-represented. It is the only such developing country.

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[8] These single-member elected Directorships are elected for two year terms, and, technically, the Director cannot be recalled. Appointed Directors can be recalled at any time, presumably giving the government controlling the Directorship more power.

clearly norms. The appendix lists the current Bretton Woods Directorships along with their bloc countries.[9] Some blocs form regionally, and allow the Directorships to rotate across all members. This is true for the two African Directorships. Other regional blocs are more "hegemonic," with the economically most powerful country controlling the Directorships. Some of these are shared across a few of the largest members, others are not.

Why would a country agree to surrender its voice at the Bretton Woods Institutions to a hegemon? Presumably, there is some kind of quid-pro-quo. Often the voting bloc includes countries of the same region or countries with similar cultural traits, so there may be long-standing historical relationships, cultural ties, or dense networks of economic exchange. In other cases, the relationships are less obvious.

The case of Spain involves long-standing historical and cultural ties through colonial legacies. Spain currently has an IMF Executive Directorship, representing a group of Latin American countries: Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Venezuela. Spain shares this directorship, alternating with Mexico and Venezuela, which currently represents the bloc at the World Bank.

The Canadian bloc is more geographically diverse, but also follows colonial legacies. It partnered early on with Ireland, a fellow (predominantly) English-speaking country and colony of the United Kingdom. The Canadian bloc then took on other former British colonies of the Americas: Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Jamaica, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines.

Then there are blocs that appear strange. Italy, for example, has enough votes to elect its own Directorship. It has more votes than either Saudi Arabia or Russia, and it actually has nearly as many votes as China – which, given current economic realities, is completely ridiculous. Rather than go it alone, however, Italy has formed a bloc including mostly Southern European neighbors – Greece, Malta, Portugal, San Marino, and Albania. It also includes Timor-Leste. By bringing together this coalition, the Directorship of Italy actually has a greater vote share than does China (recall figure 1).

The IMF Directorships of the Netherlands and Belgium are even more powerful. Individually, the Netherlands controls less than 2.4 percent of the total votes; Belgium about 2.1 percent. Yet their Directorships control 4.8 and 5.1 percent of the votes. The Netherlands bloc includes a group of, let's say, non-obvious partners: Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Macedonia, Moldova, Montenegro, Romania and Ukraine. Belgium represents Western European neighbors Austria and Luxembourg but also represents Belarus, Czech Republic, Hungary, Kazakhstan, Slovak Republic, Slovenia, and Turkey.

[9] Data for this section come from various issues of the IMF Annual Report and of the World Bank Annual Report.

And then there is Switzerland. Since joining the IMF in 1992, Switzerland has catered to a group of Eastern European and Central Asian states, winning enough votes to secure a seat on the Executive Board. So, currently, Switzerland represents a hodgepodge group including Azerbaijan, Kyrgyz Republic, Poland, Serbia, Tajikistan, Turkmenistan, and Uzbekistan. The only real ties these countries share is that they joined the IMF around the same time, with Poland pre-dating them all, including Switzerland.

Poland had joined in 1986. Having missed the Regular Elections in 1986, Poland was not represented on the Board until 1989, when it joined Italy's voting bloc. In the 1992 Regular Elections, Poland joined with Switzerland. Throughout their alliance, Switzerland has always held the IMF and World Bank Directorships, with Poland as the Alternate Director in both institutions.

Azerbaijan, Kyrgyz Republic, Turkmenistan, and Uzbekistan have been with the Swiss since the beginning, as they all joined before the 1992 elections. In 1995, Tajikistan joined the Swiss bloc, having joined too late in 1992 to participate those elections. In 2003, Serbia joined the Swiss bloc, having joined too late in 2000 to participate in the previous Board elections. The bloc has remained the same since.[10]

What is going on here? A seat on the Executive Board is important to countries (see Momani 2008, Kaja and Werker 2009). It gives them both symbolic power, and a real say over the lending and other operations of the Bretton Woods Institutions. Rich countries have more means and the Washington-wherewithal to influence smaller, poorer countries to cede their votes to them in a bloc. The central question of this paper is whether these governments buy influence with smaller countries by providing them with foreign aid. The focus is on Switzerland – it is an outstanding case, and its foreign aid data are available throughout its entire membership at the Bretton Woods Institutions.

[10] It is noteworthy that while the Swiss have held the IMF directorship throughout is tenure at the IMF, the Director has not been the same person (thus, an argument for experience cannot be made for Switzerland's continued election). From 1993 until 1997, Daniel Kaeser was the Director; from 1998 until 2002, Roberto F. Cippa was the Director; from 2003 until 2006, Fritz Zurbrügg was the Director; and from 2007 to the present, Thomas Moser has been the Director. The alternate director, always from Poland, has also changed, with Krzysztof Link holding the position from 1993 until 1995, Danuta Gotz-Kozierkiewicz from 1996 to 1997, Wieslaw Szczuka from 1998 to 2004, and Andrzej Raczko from 2005 to the present.

3. Data, analysis, and results

I consider the total amount of project aid provided by Switzerland to all countries in the world from 1990 to 2007 using the Project-Level Aid Database (PLAID) version 1.6. During this time period, 138 out of a total of 203 countries receive Swiss aid.[11] There are a total of 1,679 country-year observations where Switzerland provides aid, out of a possible 3,598 total country-year observations in my data. For countries that receive aid, the average total annual amount is 6.7 million constant 2000 US dollars.

To test my hypothesis that Switzerland provides foreign aid in return for support at the Bretton Woods Institutions, I create an indicator variable coded one during years that a country is part of the Swiss bloc, and zero otherwise. Note that since I am interested in the *foreign aid* payoffs that countries receive, I code Poland, the second largest member of the Swiss bloc, zero because this country already receives a separate, direct payoff: the Alternate Director positions at the World Bank and the IMF. Poland was originally just another member of the Italian bloc and appears to have switched to the Swiss bloc indeed to play a larger, more direct role in global governance. Presumably Switzerland does not need to provide any further incentive in terms of foreign aid. (And, in fact, it does not – there is not statistically significant different between the Swiss aid that Poland receives and the rest of the world.)

As for the rest of the Swiss bloc, do they receive more Swiss foreign aid than the rest of the world? Figure 2 shows that they do. For countries that receive aid but are not part of the bloc, the average amount is 6.6 million constant 2000 US dollars. But for countries that are members, the amount is 10.1 million.[12] A t-test indicates this difference is significant at the ten-percent level. Figure 3 presents a dichotomous dependent variable: the percentage of country-years receiving any foreign aid from Switzerland. Here the difference is stronger. The percentage of country-years receiving aid outside of the Swiss bloc is 46, while the percentage of Swiss bloc country-years receiving aid is 77, a difference statistically significant at the one-percent level.

[11] Some countries have ceased to exist or have substantial changed size. I consider only independent regimes, using the criteria of Cheibub et al. (2009).

[12] Note that my coding of IMF bloc countries does not include Poland because Switzerland shares part of its Directorship with Poland as the Swiss Director's alternate has consistently come from Poland. Presumably, Switzerland does not need to buy Poland's support, and indeed, the above results are weaker when Poland is included.

Figure 2: Swiss total annual project level aid by IMF voting block status (includes only country-years where aid was provided, Poland excluded)

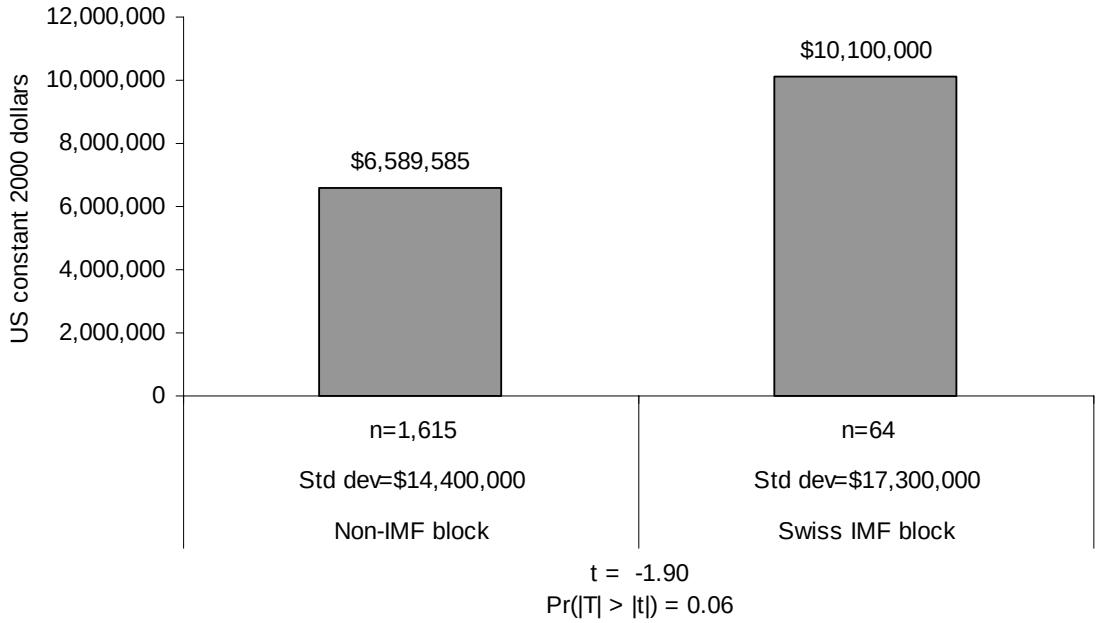
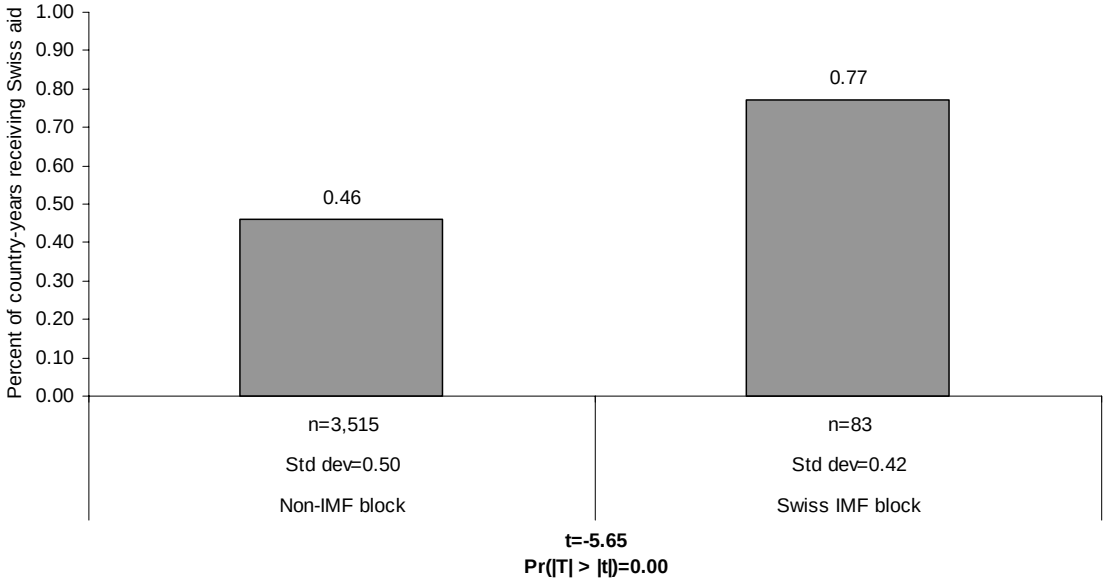


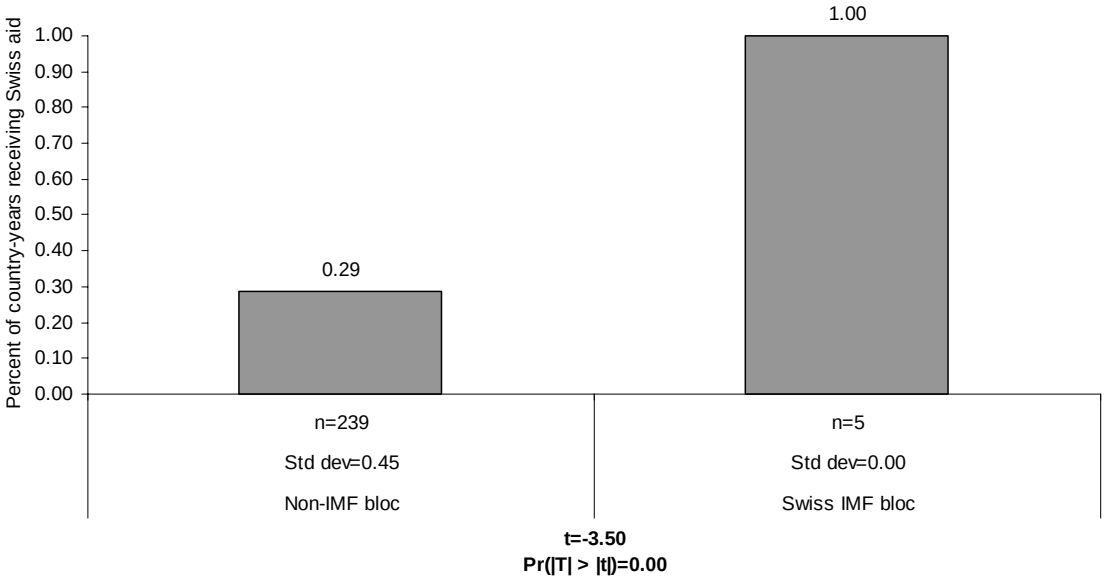
Figure 3: Comparison between country-years receiving any Swiss aid versus those that did not



Yet, perhaps Switzerland simply gives more to Central and Western Asia in general. Does the above relationship between Swiss bloc membership and foreign aid hold at the regional level? Following the United Nations classification, I consider each region that has at least one country in the Swiss bloc. In *Southern Europe*, aid goes to countries 29 percent of the time, but for the lone Swiss bloc country in the region, Serbia, aid is provided 100 percent of the time that it is a member of the Swiss bloc (t=–3.50, see Figure 4). *Central Asian* countries outside the Swiss bloc receive aid 39 percent of the time, but aid is provided 73 percent of the time to countries inside the bloc (t=–3.15, see Figure 5). *Western Asian* countries similarly receive Swiss aid 40 percent of the time, except countries in the Swiss bloc, who receive aid 88 percent of the time (t=–3.87, see Figure 6). The correlation also holds when pooling all of these regions together (results available on request).

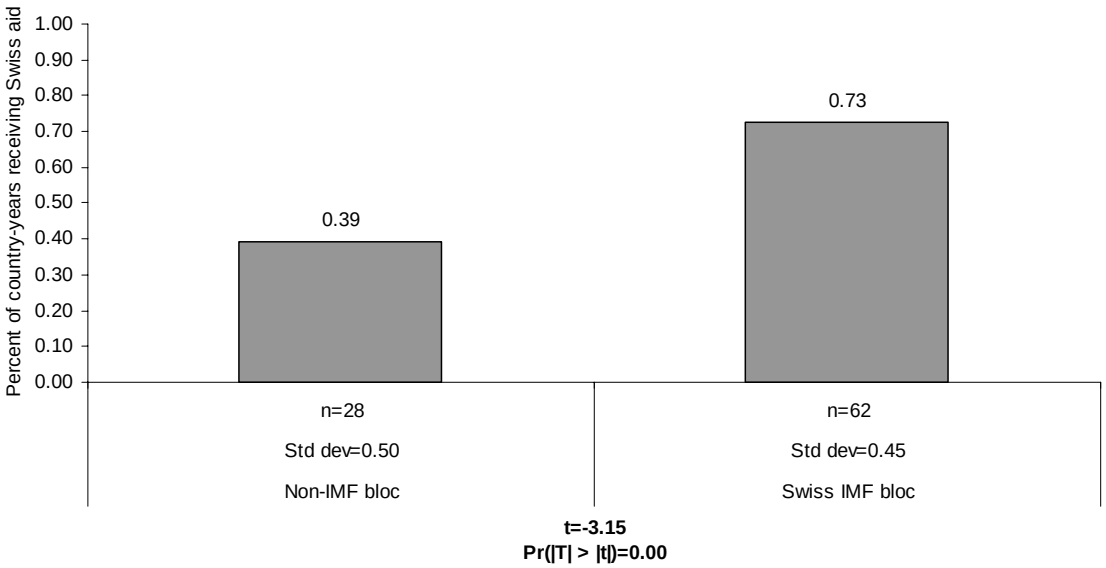
Figures 7 through 12 present similar results for each individual country before and after joining the Swiss bloc. T-tests indicate statistically significant results for Azerbaijan, Kyrgyz Republic, Uzbekistan, and Tajikistan. The results for Turkmenistan are not statistically significant, though they are in the expected direction. Results for Serbia are also not statistically significant, however, Serbia actually joined the IMF in 2000, but missed the Executive Board elections that year, not participating until elections were held again in 2002 and officially being represented by Switzerland in 2003. If one considers Swiss aid before and after Serbia joined the IMF (Figure 13), the correlation with Swiss project aid is statistically significant. (This also holds for Tajikistan, which became a member in 1992 but joined the Swiss bloc in the 1994 elections).

Figure 4: Comparison between country-years receiving any Swiss aid versus those that did not
Southern Europe



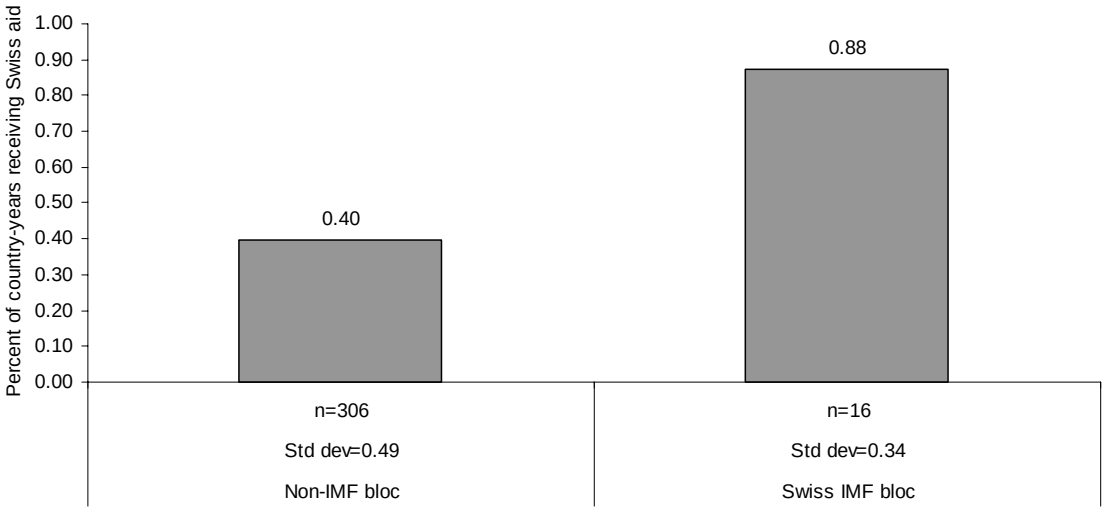
Southern Europe: Albania, Andorra, Bosnia and Herzegovina, Croatia, Greece, Italy, Macedonia, Malta, Montenegro, Portugal, San Marino, Serbia, Serbia and Montenegro, Slovenia, Spain, Yugoslavia (source: United Nations)

Figure 5: Comparison between country-years receiving any Swiss aid versus those that did not
Central Asia



Central Asia: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan (source: United Nations)

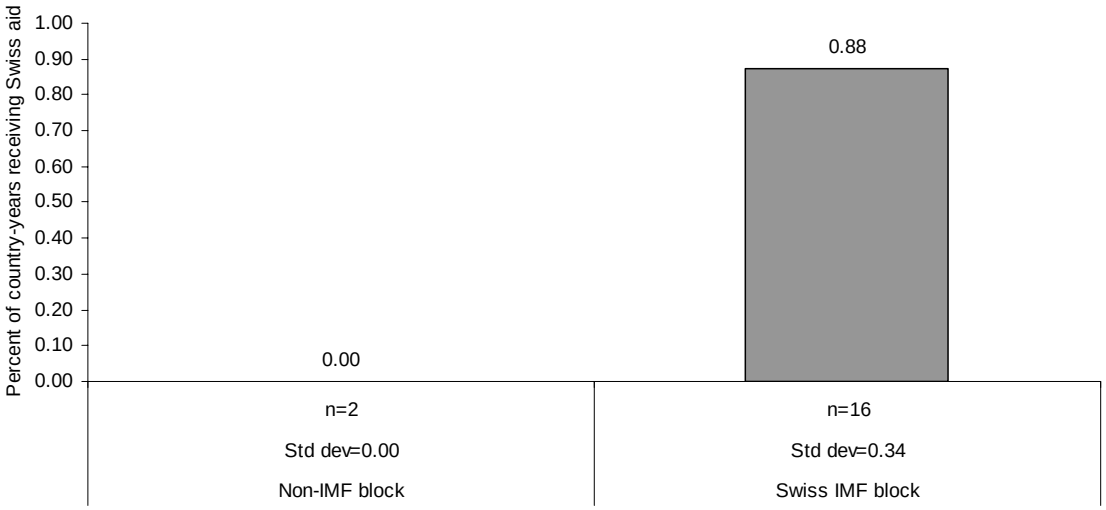
Figure 6: Comparison between country-years receiving any Swiss aid versus those that did not
Western Asia



t=-3.87
Pr(|T| > |t|)=0.00

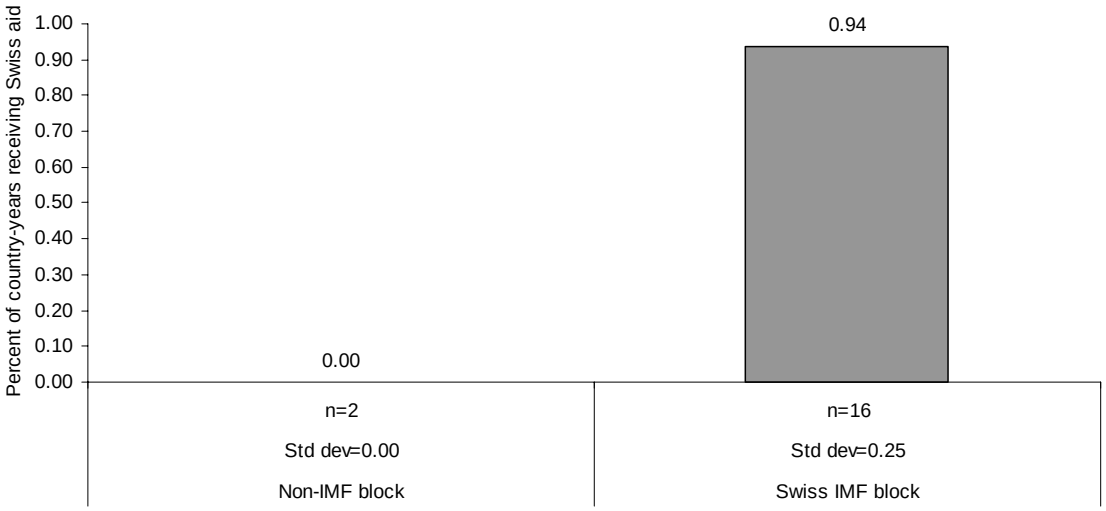
Western Asia: Armenia, Azerbaijan, Bahrain, Cyprus, Georgia, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, Turkey, United Arab Emirates, Yemen, Yemen Arab Republic, Yemen PDR (South) (source: United Nations).

Figure 7: Azerbaijan
before & after joining the Swiss block



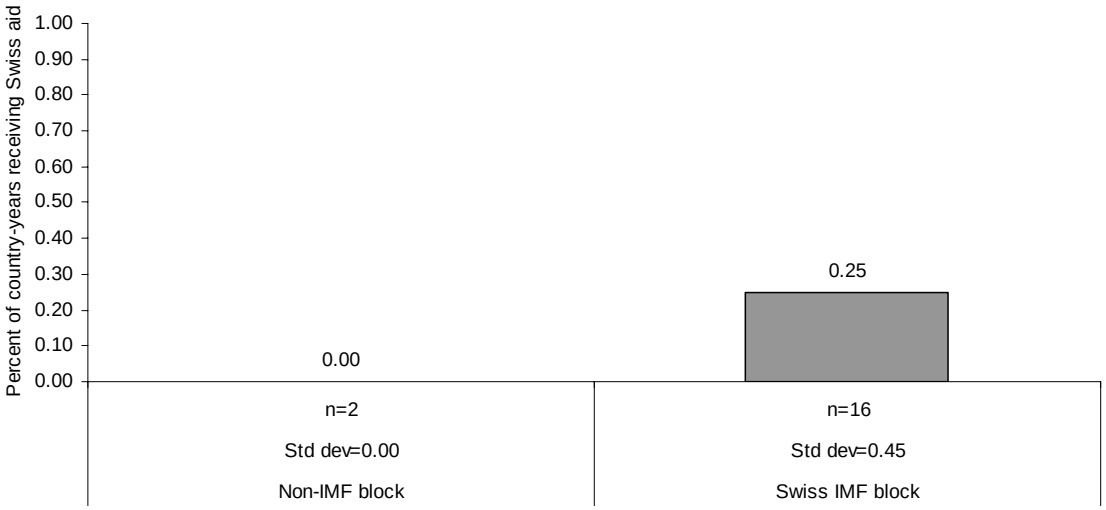
t=-3.53
Pr(|T| > |t|)=0.00

Figure 8: Kyrgyzstan
before & after joining the Swiss block



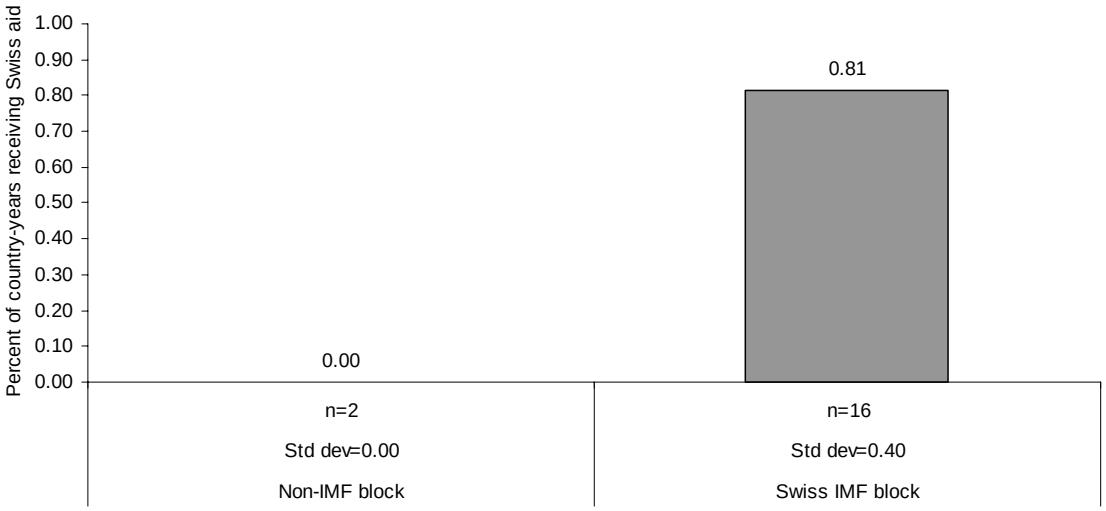
t=-5.16
Pr(|T| > |t|)=0.00

Figure 9: Turkmenistan
before & after joining the Swiss block



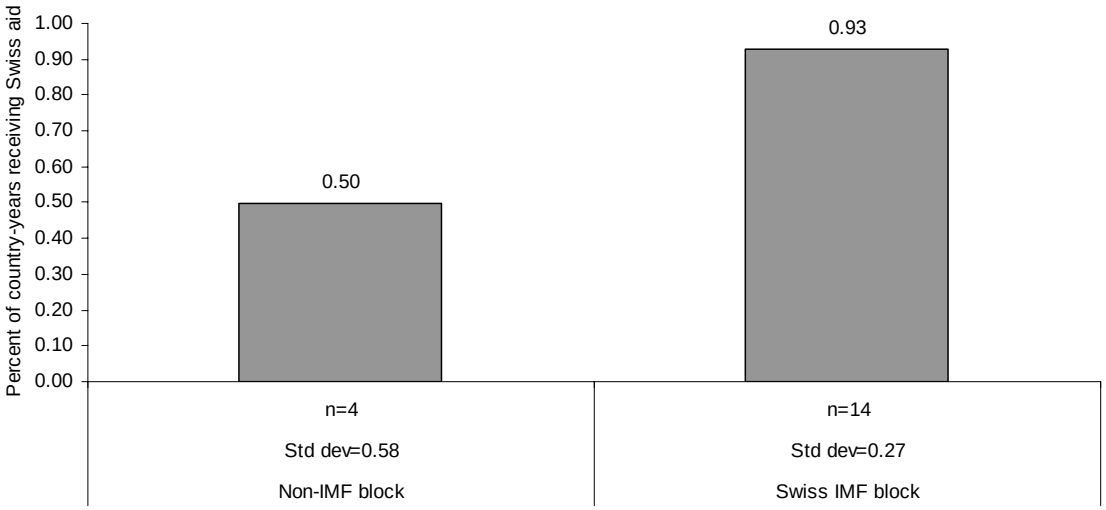
t=-0.77
Pr(|T| > |t|)=0.45

Figure 10: Uzbekistan
before & after joining the Swiss block



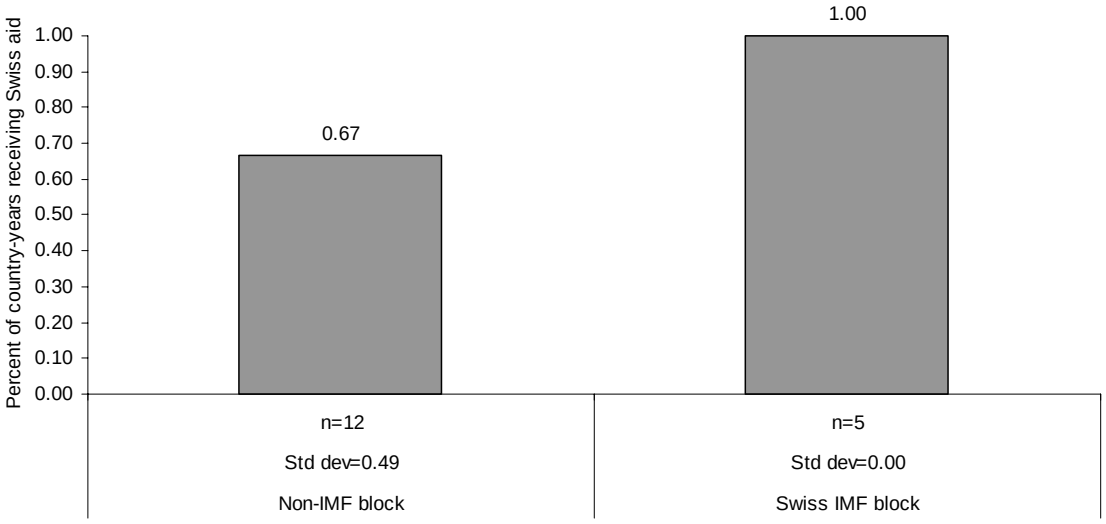
t=-2.78
Pr(|T| > |t|)=0.01

Figure 11: Tajikistan
before & after joining the Swiss block



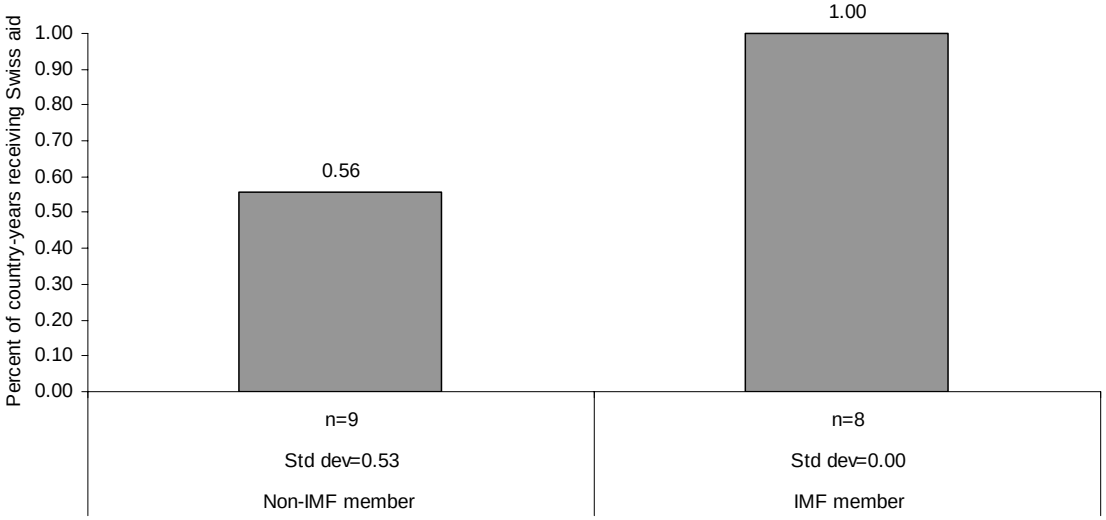
t=-2.18
Pr(|T| > |t|)=0.04

Figure 12: Serbia
before & after joining the Swiss block



t=-1.49
Pr(|T| > |t|)=0.16

Figure 13: Serbia
before & after joining the IMF



t=-2.38
Pr(|T| > |t|)=0.03

Next, I consider regression analysis of two separate dependent variables. First, I consider the dichotomous variable indicating whether or not a country received any foreign aid from the Swiss government during a given year. Second, following the large literature of foreign aid disbursements, I consider the share of total Swiss project aid that goes to a given country in a given year.

For each of these variables, I begin with a pooled analysis of all 3,598 country-year observations. Then, I introduce fixed effects. Next, I introduce control variables. The first regressions with control variables also control for country-fixed effects and cluster the error term on year.[13] Many interesting control variables do not vary over time and cannot be used in country-fixed effects models. Thus, I also consider region-fixed effects models, with errors clustered on year and a longer list of control variables. Because the first dependent variable – receipt of Swiss foreign aid – is dichotomous, I employ logit models; for the second dependent variable – share of Swiss foreign aid – I use linear models.

The control variables I employ are suggested by various contributions. Following Alesina and Dollar (2000), I include GDP per capita (measured in terms of purchasing power parity – PPP), population, democracy, trade openness, foreign direct investment, and colonial ties (in particular whether a country is a former British or French colony). Following the literature on aid effectiveness (e.g., Dollar and Svensson 2000), I include ethnic and religious fractionalization, and the number of languages spoken (along with their squared terms), and an indicator for oil exporters (coded one if oil exports account for more than one third of exports, zero otherwise). Given the preponderance of Swiss bloc states in Central Asia, I also controlled for some factors associated with countries in this region: the percent of the territory that is mountainous (logged), the percent of the population that is Muslim, and whether states are contiguous. The main independent variable of interest is, of course, membership in the Swiss Bretton Woods bloc. Tables 1 and 2 present the respective results for the two dependent variables.

In the analysis of the *receipt* of Swiss foreign aid, the effect of membership in the Swiss bloc has a positive effect, statistically significant at the one-percent level throughout all models. In the analysis of the *share* of Swiss foreign aid, the effect of membership in the Swiss bloc also has a positive effect, statistically significant at the one-percent level in the pooled model, at the five-percent level in the country-fixed effects models, and at the ten-percent level in the region-fixed effects model with the additional control variables.

[13] When I include fixed effects for year, models do not converge, indicating that there is not much variance over time. From the perspective of my cases of interest, this makes sense, since IMF Executive Board elections are held every two years and coalitions tend to be stable over time. From the perspective of the effectiveness of foreign aid, this is a good thing, as aid volatility can be detrimental to economic growth. See Lensink and Morrissey (2000) and Desai and Kharas (2010).

The effects of some of the control variables are interesting.

- The effect of GDP per capita is negative in the region-fixed effects model for both dependent variables. Switzerland appears to provide aid to poorer countries, as one would expect.
- The effect of population is not consistent. (It is negative and insignificant with country effects but positive and significant with region effects for the receipt of aid; it is negative and significant with country effects but positive and insignificant with region effects for the share of aid).
- The effect of democracy is not statistically significant in any of the models. The political regime of recipient governments does not appear to impact Swiss decisions of allocating foreign aid.
- Trade (measured as imports plus exports over GDP) does not have a significant impact on the receipt of Swiss aid, but it appears to have a statistically significant negative impact on the share. The Swiss may provide more foreign aid to closed economies.
- The effect of foreign direct investment does not appear to be statistically significant for either dependent variable.
- The effect of the oil indicator is negative and statistically significant for both dependent variables. Switzerland appears to be less likely to provide foreign aid to oil rich countries.
- Ethnic and religious fractionalization both appear to have an inverted-U shaped impact. Swiss aid is less likely to go to highly homogenous and highly fractious countries. (This does not hold for the share of foreign aid for ethnic fractionalization.)
- The number of languages appears to have an inverted-U shaped impact on the receipt of aid and a strictly positive effect on the share of aid. Perhaps the multi-lingual Swiss have a propensity to give aid to similar countries.
- Former British and French colonies are not likely to get preferential treatment from the Swiss. In fact, former French colonies are likely to get a smaller share of Swiss aid, and former British colonies are less likely to get a share – and if they do, it is likely to be smaller than that of other countries.
- Non-contiguous states are less likely to receive Swiss aid.
- Finally, the effect of Islam is strange. Countries with large Muslim populations are *less likely* to receive foreign aid than countries with small Muslim populations. This effect is statistically significant at the one-percent level. If a Muslim country does receive foreign aid from Switzerland, however, the share is likely to be *larger* the larger the percentage of Muslims in the population. This effect is also statistically significant at the one-percent level. It should be noted that this result holds while controlling for Swiss bloc membership. This is important because the average percentage of Muslims in country-years not part of the Swiss bloc is just 26, but the average percentage of Muslims in country-years that are part of the Swiss bloc is 86. Considering the recent domestic politics surrounding Islam in Switzerland, these results are worthy of further research.

Table 1: Determinants of receiving Swiss aid

Dependent variable: dichotomous indicator coded 1 for country-years receiving Swiss aid, 0 otherwise.

Variable	Logit	Conditional logit (country-fixed effects)	Logit with country-fixed effects & errors clustered on year	Logit with region-fixed effects & errors clustered on year
Swiss bloc	1.38*** (0.26)	3.83*** (0.86)	4.26*** (1.49)	1.67*** (0.54)
GDP per capita (PPP)			-0.00003 (0.0001)	-0.0002*** (0.00002)
Population			-0.0000001 (0.0000001)	0.00000001*** (0.000000002)
Democracy indicator			-0.20 (0.41)	-0.03 (0.16)
Trade				-0.002 (0.003)
FDI				-0.002 (0.03)
Oil exporter indicator				-1.16*** (0.31)
Ethnic fractionalization				-3.91*** (1.12)
Ethnic fractionalization squared				3.41*** (1.38)
Religious fractionalization				4.82*** (1.01)
Religious fractionalization squared				-5.81*** (1.29)
British colony indicator				-1.87*** (0.45)
French colony indicator				0.02 (0.36)
Log (%mountainous territory)				0.62*** (0.07)
Non-contiguous state				-0.90*** (0.22)
Number of languages				0.28*** (0.04)
Number of languages squared				-0.01*** (0.0012)
%Muslim				-0.01*** (0.0034)
Constant	-0.16*** (0.03)		1.21* (0.73)	-1.26 (0.98)
#obs:	3,598	2,539	2,350	2,249
#years:			19	18
Pseudo log likelihood	-2469.50	-806.60	-890.78	-780.25

Notes: Robust standard errors in parentheses. *** significant at the one-percent level, ** significant at the five-percent level, * significant at the ten-percent level. Country- & region-fixed effects not reported (available on request).

Table 2: Determinants of Swiss aid share

Dependent variable: share of Swiss aid provided to a specific country during a given year out of total Swiss aid that year.

Variable	OLS	Country-fixed effects	Country-fixed effects & errors clustered on year	Region-fixed effects & errors clustered on year
Swiss bloc	0.006***	0.016**	0.007**	0.003*
	(0.002)	(0.007)	(0.001)	(0.001)
GDP per capita (PPP)			-0.00000001	-0.0000002***
			(0.00000004)	(0.00000004)
Population			-0.0000000002**	0.0000000000004
			(0.00000000006)	(0.00000000000)
Democracy indicator			-0.001	-0.0012*
				(0.001)
Trade				-0.00002**
				(0.00001)
FDI				0.00001
				(0.00001)
Oil exporter indicator				-0.004***
				(0.001)
Ethnic fractionalization				-0.01*
				(0.006)
Ethnic fractionalization squared				0.01*
				(0.008)
Religious fractionalization				0.02***
				(0.003)
Religious fractionalization squared				-0.02***
				(0.004)
British colony indicator				-0.004***
				(0.001)
French colony indicator				-0.003*
				(0.002)
Log (%mountainous territory)				0.0002
				(0.0003)
Non-contiguous state				-0.0008
				(0.001)
Number of languages				0.0001
				(0.0002)
Number of languages squared				0.00002**
				(0.00001)
%Muslim				0.00007***
				(0.00001)
#obs:	3,598	3,588	3,177	2,407
#countries:		202		
#years:			19	18
R-squared:	0.004	0.004	0.374	0.191

Notes: Robust standard errors in parentheses. *** significant at the one-percent level, ** significant at the five-percent level, * significant at the ten-percent level. Constant terms, country- & region-fixed effects not reported (available on request).

4. Conclusion

When it comes to representation in global institutions, poor countries may face a collective action problem. Rich countries like Switzerland can offer individual incentives to government after government, putting together a coalition. But in the end, a whole class of countries can be left out. This is the case for Central Asia and Eastern Europe at the World Bank and the IMF. Meantime, the Swiss get to fill yet another Western European seat around the table.

A realpolitik perspective of international relations may argue that governments should pursue their individual interests, with donor and recipient countries trading aid for representation. Yet, the result has a negative externality for the international legitimacy of global institutions.

The governance of all international organizations involves sovereign states granting power to a body which no single state fully controls, and thus questions of representation and accountability are of great concern. For a global international organization to function and be accepted as legitimate, many states – both great and small, must be willing to support it.[14] A central question regarding international organizations is thus how we can simultaneously grant enough governing authority to powerful states and also grant enough say to the rest of the membership. The legitimacy and very viability of an international organization depends on granting enough authority to the "great powers" while retaining enough voice for the "rest of the world."

The recent financial crisis has added impetus to demands for the reform of global governance. The representation of emerging markets and developing countries on the Executive Boards of the Bretton Woods Institutions is in dire need of change. The white dominance is exceeded only by the male-dominance of the institutions. Even a casual glance at the snapshot of the Executive Board reveals a truly unbalanced group to represent the world.[15]

So how do so many Western European governments win seats around the table? There are at least three reasons:

(1) Part of the problem is that the developed countries have inflated vote shares because votes are partly determined by nominal – as opposed to purchasing power parity – Gross Domestic Product (GDP).
(2) Part of the problem has to do with the rules for changing votes. An 85 percent majority is required for contributions, and thereby votes, to be changed. If this super-majority is not daunting enough, the United States has veto power, as it controls more than 15 percent of the total votes. The European Union also has veto power when it votes together.

[14] For an excellent discussion on this regarding the United Nations Security Council, see Hurd (2007). For a broader perspective on multiple institutions, see Bernholz (1985).
[15] See, for example, http://ucatlas.ucsc.edu/sap/history003.jpg.

(3) A third problem that is less discussed is that rich countries recruit poor ones to form voting blocs, electing the rich countries to the Executive Boards.

The first two reasons receive a lot of attention in discussions of the reform of the Bretton Woods Institutions. The third has largely been ignored. And yet, even if we address the first two problems, if the third is not, rich countries may be able to make up for losses in vote shares by buying the support of poor countries. This will leave us with global governance that still does not legitimately reflect economic realities, much less population realities.

The virtual "market for votes" on the Executive Boards of international financial institutions is likely to result in rich countries persuading poor countries to join their blocs. The downside to this is both short-run and long-run. In the short-run, it allows for continued Western European dominance. In the long-run, it precludes the nationals of other countries from gaining experience and expertise in the important economic issues that the Executive Boards routinely deal with – this sets up a vicious circle whereby the best connected, most experienced and qualified people to serve will continue to come from Western European countries. In the end, the legitimacy of global governance suffers.

It strikes me that the only way to deal with this is to define regions that directly elect their representatives. Regional representatives should be directly elected by the region (not by the rest of the world, as in United Nations Security Council), and indefinite reelection should be allowed so that representatives have an incentive to do a good job. There are a couple of countries, like Turkey and Israel, whose regional classification is controversial, but for most of the world, the regional bloc is clear. The regionalization of global governance would help poor countries solve their collective action problem, as they would be forced to pool their votes together, rather than allow their votes to be bought off by richer countries. Regionalization will likely lead to domination by a regional hegemons, but this seems preferable to the continued dominance of Western Europe.

A regional reform like this would be big. But we are living through what is being called a "Bretton Woods Moment." And if so, then 2008 was the equivalent of 1929, and our 1944 meeting may still be more than a decade away. So, this is the time to be thinking big. Regional representation in global governance is most appropriate for a multi-polar world.

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Appendix: Current Bretton Woods Blocs

Hegemonic: The same country has held the directorship for a decade or more. Alternate is also constant.
Shared-hegemonic: Powerful countries share the directorships across the institutions and over time.
Rotating: The directorship rotates across members regardless of economic size.
* indicates the alternate Director for the IMF. ** indicates the alternate Director for the World Bank (WB).

IMF Director:	**Belgium****
WB Director:	**Austria***
Type:	*Shared-hegemonic*
Other members:	Belarus
	Czech Republic
	Hungary
	Kazakhstan
	Luxembourg
	Slovak Republic
	Slovenia
	Turkey
IMF/WB Director:	**Netherlands**
Type:	*Hegemonic*
Other members:	Ukraine*,**
	Armenia
	Bosnia & Herzegovina
	Bulgaria
	Croatia
	Cyprus
	Georgia
	Israel
	Macedonia
	Moldova
	Montenegro
	Romania
IMF Director:	**Spain****
WB Director:	**Venezuela**
Type:	*Shared-hegemonic*
Other members:	Mexico*
	Costa Rica
	El Salvador
	Guatemala
	Honduras
	Nicaragua
IMF/WB Director:	**Italy**
Type:	*Hegemonic*
Other members:	Greece*
	Portugal**
	Albania
	Malta
	San Marino
	Timor-Leste

IMF/WB Director:	**Canada**
Type:	*Hegemonic*
Other members:	Ireland*
	Barbados**
	Antigua & Barbuda
	Bahamas, The
	Belize
	Dominica
	Grenada
	Jamaica
	St. Kitts & Nevis
	St. Lucia
	St. Vincent & the Grenadines
IMF/WB Director:	**Thailand**
Type:	*Shared-hegemonic*
Other members:	Singapore*
	Indonesia**
	Brunei Darussalam
	Cambodia
	Fiji
	Laos
	Malaysia
	Myanmar
	Nepal
	Philippines
	Tonga
	Vietnam
IMF Director:	**Korea****
WB Director:	**Australia***
Type:	*Shared-hegemonic*
Other members:	Kiribati
	Marshall Islands
	Micronesia
	Mongolia
	New Zealand
	Palau
	Papua New Guinea
	Samoa
	Seychelles
	Solomon Islands
	Vanuatu

IMF Director:	**Denmark****
WB Director:	**Sweden**
Type:	*Rotating*
Other members:	Norway*
	Estonia
	Finland
	Iceland
	Latvia
	Lithuania
IMF Director:	**Egypt****
WB Director:	**Kuwait**
Type:	*Shared-hegemonic*
Other members:	Lebanon*
	Bahrain
	Iraq
	Jordan
	Libya
	Maldives
	Oman
	Qatar
	Syria
	United Arab Emirates
	Yemen
IMF Director:	**Sierra Leone**
WB Director:	**Liberia**
Type:	*Rotating*
Other members:	Lesotho*
	Sudan**
	Angola
	Botswana
	Burundi
	Eritrea
	Ethiopia
	Gambia
	Kenya
	Malawi
	Mozambique
	Namibia
	Nigeria
	South Africa
	Swaziland
	Tanzania
	Uganda
	Zambia

IMF Director:	**Switzerland**
Type:	*Hegemonic*
Other members:	Poland*,**
	Azerbaijan
	Kyrgyz Republic
	Serbia
	Tajikistan
	Turkmenistan
	Uzbekistan
IMF Director:	**Iran**
WB Director:	**Algeria**
Type:	*Shared-hegemonic*
Other members:	Morocco*
	Pakistan**
	Afghanistan
	Ghana
	Tunisia
IMF Director:	**Brazil****
WB Director:	**Colombia**
Type:	*Shared-hegemonic*
Other members:	Dominican Republic
	Ecuador
	Guyana
	Haiti
	Panama
	Suriname
	Trinidad & Tobago
IMF/WB Director:	**India**
Type:	*Hegemonic*
Other members:	Sri Lanka*
	Bangladesh**
	Bhutan
IMF Director:	**Argentina****
WB Director:	**Chile**
Type:	*Shared-hegemonic*
Other members:	Uruguay*
	Bolivia
	Paraguay
	Peru
IMF Director:	**Rwanda**
WB Director:	**Mauritius**
Type:	*Rotating*
Other members:	Togo*
	São Tomé & Príncipe**
	Benin
	Burkina Faso
	Cameroon
	Cape Verde
	Central African Republic
	Chad
	Comoros
	Congo (Kinshasa)
	Congo (Brazzaville)
	Côte d'Ivoire
	Djibouti
	Equatorial Guinea
	Gabon
	Guinea
	Guinea-Bissau
	Madagascar
	Mali
	Niger
	Senegal