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IMF Surveillance and America's Turkish Delight

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Abstract: Recently, there have been US offers to payoff Turkey for its cooperation in the war against Iraq. They are as follows: First, USD 6 billion were offered in exchange for the use of Turkey's bases during a US attack on Iraq; second, USD 1 billion dollars were offered in exchange for the use of the Turkish air space, contingent upon Turkish compliance with the continued IMF surveillance. It is argued that the United States used the IMF as an agent to impose, monitor, and assess strict financial discipline on Turkey. Borrowing arguments from the growing literature on delegation to international organisations and principal-agent models, this case raises important points and explains how the US have benefited from delegating loan monitoring to the IMF's surveillance function.

Key words: delegation theory, IMF-Turkish negotiations, US-Turkish relations, IMF surveillance

INTRODUCTION

The United States' (US) behaviour and actions in recent years have perplexed analysts, pundits, and politicians alike. While the United States has, on one hand, used its military might to invoke changes in state behaviour; it has also successfully and unsuccessfully tried to use international organizations (IOs) as tools of its statecraft. In an attempt to understand the recent case of US endeavours to co-opt Turkey in the 2003 invasion of Iraq, this article uses the principal-agent models as a tool for analysis in understanding the role of the International Monetary Fund (IMF). It is argued that, when the US offered Turkey financial assistance for its cooperation in the war against Iraq they effectively delegated their policy-monitoring authority to the IMF. The US made its financial offers to Turkey conditional upon continued Fund surveillance because the US perceived that the IMF could manage, dictate, and monitor the Turkish financial and economic policies better than its own US officials. In this particular case, the IMF was delegated to by its most powerful benefactor and arguably main principal: the United States. This article explores the reasons why states choose to delegate to IOs, as well as examines the case of the United States, Turkey, and the IMF (in 2003), and finally it raises arguments to explain why the United States might decide to opt for delegating loan monitoring to the IMF.

LITERATURE ON DELEGATING TO INTERNATIONAL ORGANIZATIONS

A growing and nascent body of IR literature examines the question: Why do states delegate certain tasks to IOs? This is placed into question more so when powerful states, such as the United States, opt to use IOs as opposed to bilateral instruments. How does one explain, why powerful states delegate to international organisation tasks that could be accomplished bilaterally? (Milner, 2003) The literature on delegation to IOs has helped address this and many other questions.

Borrowing from public-choice theories of delegation, the key analytical tools of this emerging IO literature on delegation are derived from rational-choice inspired principal-agent (PA) models, traditionally applied to analysing US domestic politics and corporate behaviour and structure. Principals, such as legislatures or company shareholders, opt to delegate some policy-making authority to outside agents such as legislative committees or operating executives. When applying the PA model to international relations, the state acts as a principal that delegates tasks for an international organisation, the agent, to carry-out on its behalf. At times, powerful states choose to delegate tasks to IOs because of the perceived benefits to be gained. Powerful principals delegate to IOs because the benefits of delegation outweigh the costs incurred and because IOs can achieve outcomes that principals might not have been able to achieve alone. (See Pollack, 1997)

Specifically, this established body of PA models argues that principals delegate authority to agents for a number of reasons. First, powerful states delegate tasks to IOs that can punish offences and reward compliance. International organisations reduce states' incentives to violate rules and norms that underpin the organisation's overall mandate, be it: Arms control, fiscal discipline, trade liberalization, or the disclosure of information regarding potential pandemics. Powerful states perceive these norms as public goods that other states might want to either violate or take for a free-ride. Delegating authority to IOs that can monitor public goods and reduce free-riding behaviour is desirable. Punishment, be it blunt sanctions or indirect humiliation, can be better applied by IOs rather than by powerful states.

Second, states can delegate to IOs rather because they have an aura of neutrality and can effectively arbitrate potential disputes between states. International organisations act as judges, trustees, allocators, and monitors of international agreements and IO norms and conventions (Abbot and Snidal, 1998: 19–23). Having an IO that appears to operate at some arms-length from the principal(s) is important for when disputes arise and resolutions need to be made. The use of IOs has expanded as states have sought legalized, rule-based forums (See Goldstein, et al. 2000). Again, states receiving these rulings might not feel that they are neutral or bias-free; nevertheless, the resolutions have a relatively more neutral aura about them when coming from an IO than a powerful state. Of course, it helps if powerful states can shape the rules and legal norms of the issue-area to reflect its own interests and have the IO package the rules in a code that appears technical or scientific. Consequently, using an IO as arbiter can be a preferred option for powerful states. That said, powerful states will remain wary of delegating to IOs and may prefer "soft laws" that can be complemented by ad hoc bargaining and issue-linkages (See Kahler, 2000: 666).

Third, powerful states choose to delegate tasks to IOs when it is thought to improve policy credibility. Powerful states find this useful when they fear that their short-term interests might prompt them to undermine the future value of their policies (Hawkins et al., 2003). In essence, powerful states "lock-in" their commitments to preferred policies by delegating to an international organisation (Moravcsik, 2000: 226). This "lock-in" function works well when the international organisation's policy prescriptions are consistent with the powerful states' long-term interests and when IOs have an even stronger commitment to the policy than would powerful states (Hawkins et al, 2006: 21). In other words, IOs are useful because they can remain strict and firm in their policy prescriptions, even in the face of political meddling or changes in state power and leadership. Powerful states, particularly democratic ones, cannot always be strict when electoral cycles and public opinion can bend and change state preferences in the short term.

Fourth, states delegate to IOs when it is difficult for contracting states to reach a firm agreement. International organisations set the agenda and push states towards a common ideal point (Hawkins et al, 2003). International organisations can, at times, be delegated considerable authority because it would be difficult for member states to reach a multilateral consensus on pervasive governing issues (See Pollack, 2006a). Consequently, principals are more likely to delegate to an IO when their ideal point is close to that of the collective group's. Plus, the likelihood of delegation will increase as principals have a say in outcomes and, inversely, delegation will decrease as agents have too much autonomy (Hawkins et al., 2006). Moreover, powerful states are more apt to delegate authority to IOs that have voting rules, which closely mirror the international distribution of power (Hawkins et al., 2006); otherwise, they will resort to their "go-it-alone power" (Gruber, 2000). It follows then, that the common ideal point will be heavily tilted towards powerful state interests with the guise of a collective agreement. An IO leader, if chosen by a coalition of powerful states, can be instrumental in moving member states to this coalition's ideal point (Hawkins et al., 2006). Hence, the institutional design of an IO can become an important factor as to whether or how far a powerful principal can delegate to an IO.

Fifth, specialization is an important function and benefit of delegating to IOs. It is assumed that international bureaucrats have the "...expertise, time, political ability, or resources to perform [assigned] task[s]" (Hawkins et al, 2003). Principals delegate tasks to international bureaucrats because the latter have knowledge in set tasks; tasks that are frequent and repetitive (See Hawkins et al, 2006, 14). This specialized knowledge is easily thought of as being scientific or technical in nature but also applies to sought-after expertise. These international bureaucrats are deemed to be apolitical and capable of devising policy based on technical criteria. This neutral and technocratic image of the IO staff serves to enhance their organisation's credibility as independent agents that are not under the direction of principals. While powerful states need to delegate tasks to organisations with credibility, they are likely to delegate less high politics issues and more low politics issues; moreover, powerful states are less likely to delegate to IO's authority to monitor other powerful states (Hawkins et al, 2006). That said, as IOs become more autonomous international bureaucrats can overstep their mandate, also referred to as mission creep, or can devise a policy that contradicts powerful states' national interests. Powerful states need to keep short leashes on IOs and accordingly design IOs that allow powerful principals to continue to monitor IOs. The principal's oversight of its agents' policies remains key to continued delegation.

Sixth, powerful states delegate to IOs to defer responsibility and avoid being blamed for any perceived negative results of controversial or tough policies. In effect, a powerful state launders its preferred policies using IOs. Laundering occurs when "activities that might be unacceptable in their original state-to-state form become acceptable when run through an independent, or seemingly independent, IO" (Abbott and Snidal, 1998). Powerful states need to launder their policy preferences using IOs, more frequently than smaller states, to maintain legitimacy and avoid being labelled the ugly imperialist power. As Hawkins et al. explains: "Precisely because great powers can act unilaterally, delegating to an IO demonstrates a commitment by that state to working within the international consensus" (Hawkins et al, 2003). For these beneficial reasons described, powerful states often opt to delegate tasks to IOs.

According to the principal-agent models, delegating to IOs is assumed to be a rational choice calculation of state actors; but this state-centric perspective can have limitations in explaining why and how IOs at times shape their own preferences. The latter criticism of the rational-choice basis of PA theories is highlighted by a growing and important field of constructivist inspired theories of sociological institutionalism and organisational theories, which give "ontological" and "purposive value" to IOs (See Barnett and Finnemore, 2004). In delegating to the IMF, there are potential costs to be incurred by the principals, what sociologists have called, "unintended consequences", and what IO observers have noted as, "mission creep". After all, to be effective and maintain legitimacy international bureaucrats need to be accorded some autonomy and independence. At the same time, there are risks associated with delegating to IOs – including organisational insularity, staff shirking, and deviation from powerful state interests – generally referred to as "dysfunctional IO behaviour" (Barnett and Finnemore, 1999). In other words, delegating to IOs can backfire and defeat the aims of the principals' preferences – IOs can become insulated from international politics and move away from reflecting the interests of the powerful states. How is this then reconciled by the rational-choice premise of the principals having the knowledge of potential costs and benefits of delegation to IOs? The division between rational-choice and constructivist accounts of IOs, however, has been "bridged" by a recent study that accepts delegations to the IO staff while noting the importance of organisational culture in the staff's respective "zones of discretion" (See Nielson, Tierney and Weaver, 2006; Thatcher and Stone Sweet, 2002: 5). Moreover as Pollack (2006b) notes, principal-agent analyses does not argue that agents are slaves to the principals, but rather it offers theoretical insights into "the sources and the extent of agents' autonomy and influence" (p. 3). The gap between principal-agent models and sociological organisational theories is then perhaps not nearly as wide. In the final section of this article, the ideas of constructivist-inspired theories will be reflected upon by considering the application of the principal-agent model in the case of the IMF.

DELEGATING TO THE IMF: THE UTILITY OF FUND SURVEILLANCE

What is the connection or link between powerful states and IOs, or for the purposes of this study, between the United States and the IMF? While there are many studies that suggest outright US utilization of the IMF as an agent of capitalist control (See Payer 1974; Hayter, 1971; Kahler, 1990), recent studies suggest a more nuanced interpretation of US politicization. Indeed, in many contemporary analyses of IMF decision-making, it is argued that America wields a considerable amount of power and weight within the organisation, particularly at the Executive Board (See Rapkin and Strand, 1997). It has been argued that the United States throws its weight in the designing of IMF loans when strategic states' interests are at risk (Momani, 2004), US global alliances are under threat (Thacker, 1999), and when private financial interests or US commercial banks are in hazard (Gould, 2003; Broz and Hawes, 2006; Oatley and Yackee, 2004; Stiglitz, 2002). While these recent empirical case studies have highlighted US interests, they have not demonstrated why the IMF is delegated to. In other words, why is the IMF chosen as the primary institution that carries out US preferences? Why does the United States trust the IMF as its agent? What is it *about the IMF* that makes it a useful tool for US foreign economic policy?

The Fund has a comparative advantage in conducting surveillance, as it has a wealth of expertise in providing economic and financial analysis to its many members at economies of scale. National governments would be deemed bias in assessing their economic conditions and economic policies. It is difficult for national governments to conduct apolitical audits and to give potentially negative assessments of their economic state of affairs. Moreover, private firms assess states where there is a strong financial and economic interest, to reap the costs of preparing their assessments. Smaller economies and less developed countries would be left on the wayside of private firms' analyses. Hence, the Fund's universal surveillance of its members is a unique public good: Large financial contributors subsidize the expert analysis of smaller free-riding economies (IMF, 1999: 18).

Fund surveillance comes in two forms: Global and, more relevant for our discussion, country surveillance. Country surveillance is achieved through the Fund staff's Article IV Consultations with members. Historically, Article IV Consultations were discussions on coordinating appropriate exchange rate polices; today, Article IV's involve more than discussions on exchange rate polices, as the staff's mandate has expanded to include advising on structural policies, financial policies, military spending, environmental policies, and budget spending (IMF, 1999: 21). According to the Fund's Articles of Agreement, Fund staff should limit their policy advice to quantitative macroeconomic policy reforms. However, in recent years the scope of Fund surveillance has extended beyond macroeconomic policy recommendations, causing some concern. Throughout the 1990s, mission creep of Fund surveillance escalated in reaction to two events: That is, former socialist states seeking membership into the Fund and the Fund's misdiagnosis of the Mexican Crisis. First, the failure of socialist economies and the fall of the Soviet Union resulted in a number of countries seeking the Fund's advice on the transition to neo-liberal economic policies (See Feldstein, 1998: 21–22).

Second, after the Mexican crisis, the Fund attempted to better forecast systemic crises; the Fund was assigned this role because it could best collect, provide, and analyze countries' information. The Mexican crisis also highlighted that "...it is not primarily surveillance over the most likely users of IMF support [i.e. developing and heavily indebted countries], but rather over the countries of greatest systemic importance, this is most vital" (Masson and Mussa, 1995: 38). This expanded scope of Fund surveillance allowed heavy Fund staff scrutiny of "too-big-to-fail countries", such as Turkey.

US AID TO TURKEY: DELEGATING LOAN MONITORING TO THE FUND

In 1999, Turkey tried to tame rapid inflation using an exchange-rate disinflation program, supported by a three-year IMF package. After their brief success, the Turkish government ran into difficulties and the IMF backed Turkey with another emergency loan package in late 2000. The academic and policy literature have pointed out various plausible causes of both the initial and continued Turkish financial crisis (See Eichengreen, 2001; Akyuz and Boratav, 2002; and, Yeldan, 2002).

Following the height of the 2000/2001 financial crisis, Turkey had become one of the largest borrowers of IMF funds, adding a USD 16.3 billion IMF Standby Arrangement (SBA). The 2002 SBA loan agreement included Turkish commitments to floating exchange rates, financial and banking reforms, spending and tax reforms, and public sector reforms. The 2002 Turkish-IMF agreement initially required six staff reviews of the program (later extended to eight). In July 2002, the Fund staff completed its third review of the 2002 SBA and was scheduled to conduct its fourth review at the end of the same year. A few days prior to the Fund staff's third review of the 2002 SBA, US Deputy Secretary of Defense Paul Wolfowitz (2002) stated:

> "Turkey's economic situation simply is of great concern to the United States. We've been working closely with Turkey for over a year now I believe and we've discussed this with the IMF. Again, I mentioned these are not normally the subjects a deputy secretary of defence gets involved with, but when it comes to Turkey, it does, although it's the secretary of treasury who has a leading role in it. Turkey's economic health is hugely important..."

Although of traditional strategic importance to the United States, future IMF-Turkish negotiations were to be complicated by the US administration's plans for Turkish cooperation in the invasion of Iraq. Moreover, Turkey's coalition government announced it would dissolve its government and allow for an early election. The conservative Justice and Development Party (AKP) were favoured to win the November elections, promising a mix of fiscal conservatism and continued cooperation with financiers and the IMF while maintaining socially responsible policies (Selcuk, 2003: 2). The US government, capital markets, and international financiers watched the AKP with ambivalence, uncertain if the party's religious roots would turn them against Western interests. These misgivings were soon abated as the AKP repeated its commitments to working with the international financial system.

The Washington Post reported that as early as October 2002, America and Turkey had already discussed the possibility of US foreign assistance in exchange for Turkish military cooperation (Graham, 2002: A12). A month later, the US administration started to publicly court Turkey's newly elected government to join the coalition against Iraq. Wolfowitz, who was a strong and long-time proponent of strengthening US-Turkish relations, headed high-level meetings between America and Turkey.

On December 3rd, Wolfowitz and Undersecretary of State Marc Grossman discussed military arrangements and economic aid with the Turkish Prime Minister Abdullah Gul. After Wolfowitz met Gul, he spoke to journalists about the continued importance of IMF-Turkish negotiations:

> "One thing that we did talk about is the deep concern in Turkey about the condition of the Turkish economy. We've been working closely with the Turkish Government and the IMF and bilaterally ever since the economic crisis broke. We've tried to help Turkey manage its way through it. We understand those anxieties. We are determined to support Turkey, whatever comes, to make sure that the Turkish economy continues to recover. If there is a crisis in this region, we know that Turkey is going to be one of the countries that is the [sic] most affected. We want to make sure we deal with that (Wolfowitz, 2002)."

Wolfowitz acknowledged that the United States was mindful of the economic costs associated with Turkish involvement in a war against Iraq. To deal with Turkey's potential economic costs, it was reported that the United States offered USD 4 billion in exchange for Turkey's military support. Media reports suggested that the Turks had loosely accepted the US offer. Wolfowitz invited the leader of the ruling AKP, Receip Tayyip Erdogan, to Washington, DC to further discuss Turkish participation in a war against Iraq. Wolfowitz and Grossman then returned to Washington, to reportedly convey a positive message from the Turkish government.

Immediately following Wolfowitz and Grossman's visit to Turkey, Turkey invited senior IMF officials to discussions with senior officials in Ankara. The Fund's head of the European Department Michael Deppler met with Deputy Prime Minister Mehmet Ali Sahin and Finance Minister Kemal Unakitan. Restoring Turkish-IMF talks was a step forward, as the new AKP government was effectively ignoring the Fund and the impending fourth review of the 2002 SBA. A formal staff mission followed the senior Fund officials, commencing on December 9th, and lasting for approximately two weeks. The Fund staff conducted its fourth review of Turkey's 2002 SBA, suggesting that a formal report would be completed in January, when it anticipated that the Turkish government would both finalize their 2003 budget and submit a Letter of Intent (IMF, 2002: 392).

On 26 December 2002, Undersecretary of Treasury John Taylor and Marc Grossman arrived in Turkey to discuss the particulars of the US aid offer. Interestingly enough, Taylor was the senior US administration official in charge of IMF affairs[1]. In their discussions with the Turkish government, Taylor and Grossman made it clear that continued Fund surveillance was required to secure US aid. In an interview with Turkish TV and Radio, Grossman (2003) stated that:

> "But of course, all of this [aid package] is dependent on all of the other things that we're talking about with Turkey: Turkey's continuation with its IMF program, the conversations we're having with Turkey on other parts of our policy on Iraq. So we're continuing this conversation and we look forward to it."

Grossman also confirmed that the principles of the US aid package to Turkey were agreed upon, but that the amount had not yet been determined. In the event of an invasion of Iraq the US administration was prepared to support Turkey financially, but only when Turkey successfully passed subsequent IMF reviews of the 2002 SBA.

In mid-January, an IMF staff team headed by Deputy Managing Director, Anne Kreuger, arrived in Turkey to assess the economic situation and to recommend a series of economic policy reforms that would allow for another disbursement of funds under the fourth review of the 2002 SBA. Turkish media reported that Kreuger's visit followed a stern letter sent from Fund management to the Turkish authorities; the letter reportedly warned of noted implementation slippages of the 2002 SBA. The IMF's second in-command told the local press that there were no plans to increase the loan already committed to Turkey and further denied any US pressure to do so (TDN, 2003a). Krueger (2003) reiterated that the Fund required Turkey to: reduce the public sector primary surplus target to 6.5 percent of GNP for 2003, reform the banking system, and liberalize investment. Krueger reaffirmed the Fund's demands for tough and immediate policy reforms.

Later that same month, America reiterated their bargaining position. On January 24th, President Bush reportedly sent a letter to Prime Minister Gul that promised US aid in exchange for Turkish cooperation in the invasion of Iraq, but this aid would have conditions. Among the conditions: Turkey must comply with IMF-demanded reforms and pass the, much-delayed, fourth review of the 2002 SBA. Bush's letter noted that the economic benefits of US aid would best be ensured with continued Fund surveillance of Turkish reforms. Contents of the letter were leaked to the International Herald Tribune and confirmed to be authentic by a senior US official at the Davos economic summit. The same US official further confirmed that they would only release its aid package once the Turkish government passed the fourth review of the 2002 SBA. The Tribune further reported that the US Treasury believed that the Turks were already failing to comply with many of the IMF's targets. The Treasury, moreover, suggested that serious structural conditions were needed in Turkey. The US government was apparently not budging on its position towards continued Fund surveillance over Turkey. (Friedman and Crampton, 2003)

Once again, the US sent their top official in charge of IMF affairs to Turkey. On February 6th, Taylor, arrived in Ankara to finalize the details of the US aid package. The next day, an IMF mission arrived in Ankara to report on implementation of Turkish reforms (TDN, 2003b). On February 8th, an undisclosed memorandum was signed between the Turkish and US governments on details of US use of Turkish military bases. Taylor returned to Washington to report on the negotiations. Meanwhile in Ankara, Turkish-IMF negotiations continued for weeks throughout early

February; negotiations included the IMF's Turkish Desk Chief Juha Kahkonen, Economy Minister Ali Babacan, and Finance Minister Kemal Unakitan. The focus of discussions was on Turkey's 2003 budget, specifically, policies required to achieve a 6.5 percent of GDP public sector primary surplus. Pursuant to the negotiations, the government had announced the privatisation of Vafibank and the downsizing of 10,000 government employees. Turkey was busy hosting discussions with both US government officials and Fund staff on its economic policies.

Back in Washington, on February 13th, Secretary of State Colin Powell met with the Turkish Foreign Minister Yasar Yakis and Ali Babacan for further discussion regarding the US offer. The same day, US and Turkish negotiators continued talks on the parameters of US aid. Powell invited the senior Turkish delegation to his Northern Virginia home to put a personal touch on the US offer. The very next day, President Bush also met Yakis and Babacan, adding formality to the US offer (Boucher, 2003). Less than one week after these top level meetings, the US became impatient with Turkish ambivalence and offered Turkey USD 6 billion in grants, converted to USD 20 billion in loans, in exchange for the use of Turkey's Incirlik base. This offer also included the provision that the Turkish government passes the fourth IMF review under the 2002 SBA. The US administration wanted Turkey to respond within 48 hours, by February 21st. Turkey continued to hold out on accepting the US offer because it did not want the Fund staff to be indirectly in charge of authorizing the disbursement of US funds (The Economist, 2003: 22).

A few days after the US deadline passed, the Turkish cabinet agreed to recommend the US offer to Parliament. America put its offer in writing with the provision of continued Fund surveillance. Despite the Turkish government's initial optimism, on March 1st, the Turkish Parliament voted and rejected the US offer of USD 6 billion in exchange for the use of Turkish military bases. Two days after the failed vote, Gul announced that Turkey was still committed to implementing IMF suggested reforms in an effort to quell investors' speculation that Turkey would default on its debt obligations. Gul reaffirmed Turkey's commitments to keeping the public sector's primary surplus target at 6.5 percent of the GNP for 2003, fulfilling its commitments to pay back government debts, implement tax reforms, downsize state enterprises, and reform the banking system (IMF, 2003). These reforms were difficult to commit to, because many policies contradicted previous election promises.

The Fund mission team, still in Turkey from February 7th, was discussing the conditions of passing the fourth review. The mission stayed an unusually long time, waiting for Turkey's Letter of Intent and arguably, for Turkey's decision on the US offer linked to the Fund's fourth review. A few days after the failed Parliamentary vote, the IMF reaffirmed that fulfilment of the policy commitments, announced by Gul, would release the fourth instalment of IMF funds.

On March 4th, the IMF's Director of External Relations denied that the US offer of financial assistance to Turkey was ever linked to a continuation with Fund surveillance. In response to a question regarding the link between US aid and the IMF's review of Turkey, Dawson (2003) stated:

> "With regard to the linkage that you cited in your question to the vote in the Turkish Parliament, we don't see what the linkage is. We've been continuing these discussions with the Turkish authorities on a program, and the program has the same broad parameters that it has had from the beginning. So I would question the premise, politely, but I would question the premise that there is a linkage."

The IMF attempted to distance itself publicly from the US offer. The Turkish authorities, however, were quite open about their triangular relationship. On March 12th, Gul (2003) told the press that "meetings [with the US] in the economic area and the aid to cover the damage Turkey could see [from an Iraq war] are tied to the IMF letter of intent. There is no reason to hide this." Turkish officials refuted the Fund's emphatic denial of a connection between US aid and Fund surveillance over Turkey.

After the Parliamentary vote against providing the US with access to Turkish military bases, the Turkish government agreed to consider the US' second offer: USD 1 billion in financial assistance in exchange for the use of Turkey's airspace. On March 20th, Parliament agreed to allow US over-flights. This put a bandage on US-Turkish relations that were temporarily strained after the first failed parliamentary vote. The favourable March 20th parliamentary vote had also allowed for the United States to ask Congress to consider giving Turkey another package of financial aid. Although there was a serious deterioration of Turkish-US relations, the US government soldiered on to mend the relationship. According to Edward Erickson, the US State Department (and presumably the administration) pressured the Defense Department to quickly mend the rift (2004). Clearly the US viewed that it needed to keep a strong alliance with Turkey (which is also militarily aligned with the US' Middle East ally, Israel) in light of the inhospitable Iraqi neighbours, namely Syria and Iran. Hence, on March 24th, the Bush administration requested from Congress the release of USD 1 billion in aid, convertible into USD 8.5 billion in loans, for the Turkish government.

In late March, several media reports suggested that the US would weigh-in negatively at the Fund's Executive Board discussion of Turkey's staff report, because they were disappointed by Turkey's March 1st vote in Parliament. These rumours had also sparked some unrest in Turkey's financial markets. In an interview with Reuters on March 31st, John Taylor was on the defensive by stating that any US reaction to the staff report would be based on economic rather than political considerations. Taylor also added that the staff review of Turkey would most likely be approved (TDN, 2003c). Indeed, on April 6th, the Managing Director announced that Turkey had, in fact, passed its fourth review of the 2002 SBA. On April 18th, the Executive Board officially approved Turkey's fourth review, enabling Turkey to receive USD 701 million of the original billion-dollar loan package.

After some Congressional debate and hesitation over giving Turkey financial aid, the legislature finally approved the President's proposals. On April 16th, the US Senate and House agreed to appropriate USD 1 billion for Turkey under Public Law 108-11. According to the statute, the funds would be provided but "...the President shall determine the terms and conditions for issuing the economic assistance [of $1billion] authorized by this paragraph and should take into consideration budgetary and economic reforms undertaken by Turkey" (US Congress, 2003). This statute included a loophole: Turkey could be refused the money if it rebuked on Fund surveillance in the upcoming fifth and sixth reviews.

The US promise of USD 1 billion in aid was still earmarked by mid-June, but not delivered to the Turks. A Treasury department spokesperson stressed that talks with Turkey were continuing, but that the US still wanted to see Turkish compliance with Fund reviews. Similarly, Counsellor Minister Tuluy Tanc, of the Turkish Embassy in Washington DC, also confirmed: "the US treasury has expressed that the signing and the finalization [of disbursing US aid] is dependent on the IMF conclusion and the IMF review" (TDN, 2003d). The US had a substantial lure in front of the Turkish government: Cooperate with Fund surveillance and receive USD 8.5 billion in loan guarantees was their appeal.

The Turkish government complied with Fund surveillance and passed the fifth review by the end of the summer, but the United States continued to hold out on giving Turkey the funds. On August 1st, the Executive Board had officially completed the fifth review of Turkey's 2002 Standby Arrangement; accordingly, the Fund disbursed USD 476 million to Turkey. Originally scheduled for August, the sixth Fund review of the 2002 SBA was then postponed to October 2003. The United States again claimed that the Turkish government had to complete the sixth Fund review to receive the US finds. Turkey remained lured into complying with Fund surveillance until October.

By September, the President's office alerted Congress that it was ready to transfer the USD 1 billion appropriated for Turkey from the State to Treasury Department. Treasury would leverage the USD 1 billion into USD 8.5 billion in loans for Turkey (Entous, 2003). Details of President Bush's September 5th letter were obtained by Reuters and included the terms of the money transfer. The Bush administration noted in its letter to Congress that, indeed, Turkey was "presently on track with its IMF-supported economic program" (Entous, 2003). The letter also reconfirmed that US aid to Turkey was "conditional on Turkey's continued adherence to its IMF-backed economic reform program" (Entous, 2003). For nearly five months, the US delayed disbursing the funds appropriated for Turkey to ensure that the Turkish government complied with the fifth and sixth Fund reviews.

In the corridors of the 2003 IMF-World Bank meetings in Dubai, America and Turkey formally announced the terms of the US financial offer. On September 22nd, John Snow and Ali Babacan officially signed a US-Turkey financial agreement. At the official signing, Snow (2003) commented that: "This U.S. assistance aims to reinforce the Turkish government's own economic policies.Although the US Treasury will administer the loan program. State and Defense have roles in determining whether Turkey is meeting conditions." Three days after the signing of the US-Turkish financial agreement, an IMF mission arrived in Ankara to begin the sixth IMF review of the 2002 SBA and to begin preparatory work to allow the release of US loans into Turkey.[2])

The terms of the 18 month US loan included a 10-year maturity and a 4-year grace period to pay back the principal of the loan. To disburse each of the four equal instalments in six month intervals, the Turkish Treasury was required to place its request through the US Treasury Department. The US Treasury would then consider Turkey's request – by also taking the views of both the Departments of State and Defense, regarding Turkish compliance with IMF economic reforms and with the US occupation of Iraq – and respond to Turkey's request within 8 business days. It was expected that the first instalment of the US loans would be disbursed after Turkey formally passed its sixth review at the Executive Board (completed in December 2003). Fulfilment of the US loan terms would allow Turkey to draw on needed funds. Although the funds would relieve the Turkish economy, Turkish compliance with Fund surveillance ensured continued adherence to neo-liberal policy reforms.

US DELEGATING SURVEILLANCE OF TURKEY TO THE IMF

Building on the principal-agent (PA) model described and on the IO delegation literature, it is argued that the US delegated its authority to the IMF to monitor its financial offers to Turkey. This section reflects how PA models are used to help us understand why America delegated the monitoring of its loans for Turkey to the IMF. While PA models have often described state motivations, they have been less fruitful in explaining what it is about the agent discussed that makes it a useful tool. Many applyied PA models acknowledge "agency slack" or "dysfunctional IO behavior", where agents motivated by their own bureaucratic consideration can act in contrast to principal preferences. But, what if principals are willing to incur the costs of agency slack because the agent is predictable? To address this, we need to examine why the US preferred to delegate its loan monitoring to the IMF? What is it *about the IMF* that makes this a useful agent? Here, sociological organisation theories are added into the analysis, not as a criticism of the PA models but as a complement to understanding why agents in PA models are useful to their principals. In other words, borrowing from sociologically-inspired theories that give ontological value to IOs: What can we learn about these very IOs to enrich a PA analysis? The six theoretical PA factors previously discussed and the empirical process-tracing of events surrounding the IMF-Turkey-US relationship are assessed when considering why a powerful state like the United States prefers to delegate loan monitoring authority to the IMF.

First, the US perceived that the IMF would be strict in its assessment of Turkish economic reforms and reduce Turkish incentives to renege on its economic commitments. The IMF, notorious for its in-depth and hard-line analysis, would best assure compliance to economic reforms. Here the insights of sociological organisation theories show us that the Fund's organisational culture is characterized as technocratic, hierarchical, conforming, and bureaucratic (Momani, 2007) – for the US, these served as valuable attributes to have in an organisation entrusted with monitoring its loans to Turkey: strict, hard-lined, clear chain of command (and potential interference points), and predictable advice. The Fund also had significant leverage: Thus, reneging on IMF terms and conditions would likely disqualify Turkey for subsequent loan disbursals under the existing agreement, lead to complicated negotiations for subsequent agreements, reduce donor confidence in disbursing loans to Turkey, and stymie financial investors' confidence in Turkey. In essence, continuing with Fund surveillance was important to Turkey's long-term macroeconomic health. Moreover, having added US loan offers to the pool of potential IMF disbursements actually strengthened IMF bargaining vis-à-vis Turkey. Turkish compliance and implementation of the 2002 IMF loan, according to both the Fund and the United States, was already perceived to be problematic. Congress was simultaneously criticising the US administration for failing to be "tough" with Argentina. The Argentinean government took advantage of its significant exposure to multilateral lenders and capital markets, by effectively segmenting its creditors (see Cooper and Momani, 2004). The US was worried that Turkey might repeat the Argentinean strategy and renege on its IMF commitments. To prevent this and augment the Fund's leverage with Turkey, the US could use its aid offer to augment the Fund's hand in negotiations with Turkey and ensure continued Turkish compliance with its IMF loan reviews. By delegating to the Fund, the US simultaneously enhanced the Fund's capability to punish and reward Turkey for good behaviour, while ensuring better use of its loan offer.

Second, the US chose to delegate monitoring responsibilities to the IMF because the Fund is better regarded as a neutral agent. To some, the key benefit of delegation is this "credibility rationale" (Majone, 2001; Alter, 2006). Finding an agent whose values differs from the principal and who has an arms length relationship from the principal can lend credibility to agent decisions (Ibid.). It helps to visualise this by questioning whether Turkey's Central Bank or Finance Ministry would have been more receptive to scrutiny by IMF staff than to US State and Defense officials. It is suggested that, indeed, the IMF staff have better access to and relations with debtor state officials. As Louis Pauly reminds us:

> "...the Fund and its surveillance apparatus could also play the role of 'heavy' with indebted countries. It could not force policy changes, but it could encourage changes in a way that was less of an affront to national sensitivities than direct interventions by the authorities of another state... [moreover] the Fund could bring its own financial resources to bear and in the broader legal foundation on which its surveillance mandate rested" (Pauly, 1997: 120).

The optics of US monitoring and scrutiny of Turkish economic policies would have been potentially problematic within the Turkish bureaucracy, media, and public. Simply put, monitoring and access to information is easier to attain under the banner of the IMF. This relative ease of access is attainable, because Turkey rightfully perceives itself to be a full-fledged member of the Fund. In contrast to relations with US Treasury officials, Turkish officials are more likely credulous, relaxed, and forthcoming with Fund staff. It has even been suggested that relations between the Turkish and Fund officials have been at times too chummy, particularly since a high profile Turkish official had been a part of the IMF staff.

Third, the United States delegates to the Fund because it improves policy credibility, both in the US and in Turkey. At home, the US wanted to "lock-in" the agreement with Turkey to circumvent Congressional efforts and subsequent US administration efforts to revoke, change, or write-off the offered loans. Many members of Congress, primarily supporting Greek and Armenian constituencies, have long rejected US aid to Turkey. At the time of Congressional debate on the war in Iraq, members of the House questioned the "wisdom" of giving Turkey financial aid (See Pallone, 2003). Again most recently, the Schiff Amendment attempted to prevent the disbursal of aid to Turkey on the grounds that funds could be used to continue to deny its involvement in the Armenian Genocide. Moreover, the US administration, and the Treasury Department in particular, also "locked-in" a commitment which the State Department and Defence Department could not later circumvent. The Treasury Department could acquire strict surveillance yet, remain un-politicised by the bureaucratic interests of the State and Defense that related to Turkey. Abroad, the US wanted to ensure that the Turkish government continued on the path of economic liberalisation by "locking-in" the existing Turkish government. The US feared that Ankara would take the funds and renege on Fund surveillance (Filkins, 2003). The US was particularly concerned because the AKP had won the November 2002 elections, on a populist and Islamist platform; this platform contradicted many of the previous commitments to IMF reforms. Secular Turkish political elites and domestic business interests also remained weary of the AKP, fearing that the AKP had a religious agenda that would clash with free market interests (Turan, 2003: 1). Throughout the campaign and immediately after taking office, the AKP continued to state and confirm their obligation to fulfil the terms of the 2002 SBA; but, Turkish secular elites, financial investors, journalists, and the Fund continued to be cautious of the government's populist tendencies. The US did not want to see its financial assistance used to delay the implementation of painful economic liberalisation measures and to bypass Fund surveillance. The US administration feared that the Turkish government would use US aid to circumvent the Fund's tough economic conditions.

Fourth, the US delegated to the Fund because the IMF staff could clearly set the agenda for continued economic reform in Turkey. The Fund had significant and concurrent experience with understanding Turkish economic policies. US agencies could not produce the type of credible policy papers that would convince the Turkish government of needed economic reforms. Again, the bureaucratic nature of the IMF – an insight of the sociological organisation theories – has shown us that the Fund staff is meticulous about standardisation and, most importantly, documentation (See Harper, 1998; Momani, 2007). The IMF staff was both thorough in their analysis and possessed an important stream of papers (the continuous Article IV consultation arrangements) that the US administration and Treasury Department could use in their analysis and check. The United States understands that the Fund staff is best at monitoring and prescribing neo-liberal economic policy conditions to debtors. Of course the US Agency for International Development has monitored US financial assistance in many developing countries, but much of this agency's work centres on promoting trade and investment through project-lending. USAID is less capable than the Fund in monitoring such things as exchange rates, government spending, and financial sector reforms. The US could depend on the Fund to firmly set goals and objectives for the Turkish government. The international community also approved of the Fund's economic prescriptions for Turkey by accepting the initial agreement at the economically representative Executive Board. The existing 2002 SBA loan agreement was a common ideal point already accepted by the Executive Board.

Here the insights of sociological organisation theories are useful for understanding why the IMF, in particular, is effective at ensuring credibility and setting Turkey's economic agenda. The IMF staff, in Barnett and Finnemore's (2004) terms, is "an authority" because they have the expertise and training in macroeconomic policy-making. They are also "in authority" because they can determine Turkey's future access to commercial loans – the "good housekeeping" seal affect of good Fund relations. The United States is more comfortable with delegating loan monitoring to the IMF because the IMF staff is made up of professional economists committed to economic liberalisation. Although, a critic of PA models, Karen Atler has noted that agents can be more influenced by "...professional norms than by concerns about Principal preferences, sometimes dying on their sword rather than be seen as caving to political pressure" (2006: 496) – something Axel Dreher has similarly (although less graphically) suggested about the IMF staff (2004: 447) – this is not necessarily a bad thing when it comes to the IMF staff and economic liberalisation. Here the US' "ideal point" is close to the IMF staff and arguably the IMF staff is more stringent than the US in prescribing economic liberalisation. The IMF staff also helps to "lock-in" US economic preferences. This rarely poses a risk or cost to the US; that said, in rare cases where the IMF staff has devised IMF agreements with debtor countries that are seen to be too strict, the US was given the option and ability to intervene and veto the IMF, so that its policies returned to the US' ideal point. This was exemplified in the case of US interference in Egyptian-IMF loan negotiations, when the IMF staff devised agreements that were too strict and therefore, could potentially jeopardize the stability of the pro-US regime (See Momani, 2005a). The United States was then able to usurp the IMF analysis and effectively water-down the severity of the loan agreements. In the case of economic liberalisation, it serves the US to have the Fund staff stricter in its economic analysis – that the IMF staff is committed to their professional integrity as economists is even better – which, if need be, the US can always usurp using its veto at the Executive Board. It follows then, that the institutional design of the IMF (discussed in the final section) can hold the key to assuaging US fears of "agency slack".

Fifth, the Fund is a highly specialised organisation with valued expertise. The IMF has the expertise and labour power to support investigating and monitoring debtor state policies. It is also to the advantage of the Fund that its staff's policy advice can be deemed as sound and, in many economic and business circles, respected. Compared to US officials, the IMF staff is more likely to be perceived as international civil servants that use economic evidence to dictate their policy prescriptions rather than political agents. These "econocrats" are often viewed as international bureaucrats above the ugly-business of politicking. This is not to say that IMF staff advice is not viewed by some to be politically harmful, but the key point is that *relative to* US officials and bureaucrats, the Fund staff policy advice is deemed less politicized. At the same time, the Fund staff share similar economic paradigms with the US Treasury and other international aid agencies; this shared worldview is often reflected in the concept of the "Washington Consensus". It also helps that the Fund staff is primarily made up of US-trained economists, despite having diverse multinational backgrounds, who have shared the same technocratic and neoclassical economic training (Momani, 2005b: 167–187). So, the Fund and the US economic paradigm are closely aligned and the US looses little in terms of potential policy slippages when delegating to the IMF.

Sixth, the US wanted to defer the responsibility of monitoring and dictating Turkish economic policy to the IMF, to avoid blame and criticism of undermining Turkey's economic policy-making sovereignty. As Abbott and Snidal suggest: "IFI [international financial institution] restrictions on national autonomy (e.g., on project design or broader economic policies) may not carry the same domestic political implications of dependence and inferiority as would conditions imposed directly by, say, the United States or France" (2005: 18). The US made its offer for financial assistance to Turkey on condition of continued IMF surveillance because the US, politically speaking, could not put or monitor stringent economic conditions on the funds. The potential political quagmire that would have been created between Turkey and the United States, had the latter placed conditions on its loans, was addressed by laundering. The United States laundered its preference for strict economic conditions on its financial assistance to Turkey by using Fund surveillance to its advantage. The Turkish case demonstrates the US perceived utility of delegating tasks to the IMF. While the six aforementioned factors discuss the perceived benefits of delegation, I will now turn to what this means for powerful states, like the United States, as principals and the future use of PA modelling.

As noted earlier, powerful states are likely to delegate less high political issues and more low political issues – in both technical and scientific issue areas. The IMF, like the scientific and environmental IOs rest on technical staff and will therefore see more delegation. That said, powerful states as principals will not delegate authority to IOs to monitor other powerful states (Hawkins et al, 2006). This is perhaps why the US ensured that recent calls for multilateral surveillance of global imbalances, principally involving China, Saudi Arabia, Japan, and the US, would stay out of the IMF staff's hands and in state official-level conversations. Principals will be more comfortable delegating to IOs on issue-areas that affect weak states and less comfortable when delegating to strong states. Institutional design will often entrench this tendency. After all, the IMF uses weighted-voting based on members' liquidity position in the Fund (financial contribution to the IMF overall) and gives the US a veto on many important decisions. If principals cannot secure their ultimate control over the organisation, there are fewer chances of delegation and frankly involvement in the organisation. The case of the United States being snubbed by the United Nations is indicative of this potential, which proves IOs to be irrelevant.

Institutional design of IOs will also determine how much authority a powerful state delegates. Egalitarian – like IOs will be used less and even circumscribed by principals – the proliferation of bilateral and regional trade agreements and stalling at the World Trade Organization is perhaps telling of this. This is not the case at the IMF. Indeed, the IMF's institutional design is well – suited to its principal's interests – and on some issue areas the G5 constitutes a "collective principal" (See Copelovitch, 2006). Voting rules are highly tilted in favour of the United States, such that the common ideal point is reflective of US interests. The IMF voting rules have historically ensured that the US retained their veto power, as the largest contributor of Fund liquidity. The Fund staff has "zones of discretion" in which it can design autonomous ideas and policies, but the United States has its say at the end of the process on the Executive Board. The institutional design of the IMF is a mechanism to ensure that the IMF staff does not become overly autonomous and take the IMF in the wrong direction.

CONCLUSION

The current interest in using PA models, by both proponents and critics, to explain why powerful states delegate to IOs is clearly growing. Like all models, there are limitations to PA assumptions. Some of the criticism has centred on how IOs are bureaucratic entities that have acted in contrast to their principal's bidding, thus creating "dysfunctional behaviours". The tools of the PA critics, namely sociologically-inspired theories, could be used to better understand why IOs are used. Again, what is it about some IOs that make them attractive to principals?

The growing principle-agent literature has provided a valuable tool to understanding why powerful states like the United States benefit from delegating policy monitoring authority to international institutions like the IMF. The case of Turkey and the US, ensuing from the invasion and occupation of Iraq, has demonstrated America's perceived utility of delegating its policy preferences through the Fund. The Fund will continue to play an important role in international affairs and global governance as its mandate to increase country surveillance enlarges. Presumably, we may find America also increasingly resorting to IOs to exercise policy monitoring and surveillance as its international stature continues to diminish. The United States will find it useful to hide behind IOs, like the IMF, which share its policy preferences and paradigms.

ENDNOTES

[1] In coming to office, Taylor had argued that strong IMF conditions ensured continued Turkish commitment to IMF conditions, See Baker (2001).

[2] Turkey completed the sixth review in December, and two remaining reviews were completed successfully through 2004. The agreement expired on 3 February 2005.

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