Delegation, Hierarchy, and Kingdoms in International Economic Organizations

Leonard Seabrooke
Copenhagen Business School
ls.cbp@cbs.dk

ABSTRACT

Kingdoms are largely irrelevant in world politics. As a form of governing we associate ‘kingdoms’ with pre-20th century relationships out of sync with the modern interstate system and some of its governing bodies – International Organizations (IOs). This paper demonstrates that modern states that continue to operate as kingdoms can use IOs as disciplinary devices to contain agency problems in the colonies. So while IOs are legitimated by a mandate to transform polities into sustainable modern states in the interstate system, states use them to sustain earlier forms of governing that are characterised by hierarchy and dependency. Kingdom states do so through the quirks of international economic law, especially rules of membership to IOs, and from activities delegated by the metropole to IOs. For example, a state that belongs to an IO as a kingdom is entitled to delegate tasks to the IO, such as the administration of structural adjustment programs in a colony, that earlier would have been conducted by the metropole. So, while IOs are tasked with the job of decolonizing and modernizing, they also help metropoles enforce discipline over their colonial subjects. While the presence of hypocrisy in the international order is no surprise, the consequences are significant in terms of real world effects and also how can conceptualise change in world politics. First of all, development strategies in microstates, many of which were or are in dependent relationships, have been shaped by kingdom status. This includes the rise, fall, and blocking of particular economic strategies, such as becoming an offshore financial centre or a colony’s international financial capacity. Conceptually, the presence of kingdoms in IOs raises questions of how we understand relationships of authority and legitimacy and also question of historical sequencing in the modern international system. This paper explores the relationships of hierarchy and delegation between kingdoms and IOs by drawing on interviews and case material from two ‘couples’: the Netherlands and Curaçao in the Kingdom of the Netherlands, and Denmark and the Faroe Islands in the Kingdom of Denmark. I look, in particular, into how both kingdoms used IOs as a governing device, highlighting the relationship between these kingdoms and the International Monetary Fund during periods of economic crisis.

KEYWORDS

Kingdom; Hierarchy; Delegation; Economic Crisis; International Monetary Fund; Microstates.
INTRODUCTION

We live in a world of modern states that interact within the interstate system, each imposing their monopoly of the legitimate use of force with their territory and interacting through shared international laws, norms, and conventions. This is how we have wanted things in the post-war period, as colonialism has been shaken off and older forms of governing thrown into the dustbin of history. The Secretary-General of the United Nations, Ban Ki-moon, has stated that the eradication of colonialism is one of the UN’s greatest successes and that the 16 remaining Non-Self-Governing Territories must follow in the footsteps of their brother and sisters to bring this modernization process to a close.\(^1\) In general, International Organizations (IOs) are charged with the task of modernizing and developing polities into sustainable economies with a rule of law, international cooperation, democratic government and good governance practices. Such an aim is the mandate for most IOs, big and small, and certainly for the institutions charged with economic development, such as the World Bank and the International Monetary Fund (IMF). These IOs are increasingly engaged in persuading, benchmarking and enforcing regulations and codes to be imposed by national authorities within the modern state framework. For example, one of the IMF’s key activities is fiscal reform, a job that is done with the idea that the IMF can create modern states with strong tax systems in the manner that we attribute with modern northwestern European states (Broome and Seabrooke, 2007).\(^2\) Increasingly IOs are engaged in enforcing standards and codes across a range of economic activities, from financial regulation to the ease of doing business.\(^3\)

---

\(^{1}\) This draft paper is part of the ‘Why No Tax Haven in the Faroes?’ project supported by the Faroese Research Council and led by Guðrið Weihe. The research team includes Guðrið Weihe, Eyðfríð Juanna Schrøter Joensen, Jason Sharman and Leonard Seabrooke. Interviews and archival research for this project have been conducted by team members in the Faroes, the Netherlands, Denmark, Curacao, the Cook Islands, and the United States of America between 2008 and 2010. While this paper has been written by me it also contains interview material from other team members. All errors are unquestionably mine.


\(^{3}\) This activity also leads to the common quip that the institution’s name stands for ‘It’s Mostly Fiscal’.

\(^{4}\) I am referring to the IMF’s and the World Bank’s Financial Sector Assessment Programme in the former and the World Bank Group’s ‘Doing Business’ benchmarking activities in the latter.
From the IO literature we know that some states are much more likely to develop than others. The characteristics of lenders have been noted by a range of scholars, from the likelihood of programme success in post-communist states (Stone, 2002) to the likelihood that ‘neoliberal-trained’ economists would encourage financial liberalization (Chwieroth, 2010). We have studies of how very powerful states are able to cajole and bully IOs into providing soft loans to lenders of geopolitical interest (Momani, 2004), and we have studies concerned with pointing out how IOs, such as the IMF, act as a ‘reputational intermediary’ between a borrowing state and the international financial community (Broome, 2010). We have less information about the character of membership changes how modern states interact with IOs, the implications of different forms of membership for the maintenance of different types of international hierarchy, and the extent to which states can use their form of membership to use an IO as a disciplining device over parts of their internal territory.

The ongoing status of ‘kingdoms’ within IOs provides such a device for some modern states. At first glance the idea of a ‘kingdom’ as a form of governing appears antiquated. It reminds us of goblets and velvet tights, not the grey suits of the modern state system. This paper argues that 'kingdom' continues to be a form of governing that allows the metropole to use IOs as a disciplinary device over its colony in a manner that secures the rights of the past – from the acquisition and administration of territories - in the present and future. So while kingdoms are largely irrelevant in world politics, they continue in association with some of the states we consider to be the most ‘modern’ (such as the Danish and Dutch cases discussed here).

This paper demonstrates that modern states that continue to operate as kingdoms can use IOs as disciplinary devices to contain agency problems in the colonies. So while IOs are legitimated by a mandate to transform polities into sustainable modern states in the interstate system, states use them to sustain earlier forms of governing that are characterised by hierarchy and dependency. Kingdom states do so through the quirks of international economic law, especially rules of membership to IOs, and from activities delegated by the metropole to IOs. As such, a state that belongs to an IO as a kingdom is entitled to delegate tasks to the IO, such as the administration of structural adjustment programs in a colony, that earlier would have been conducted by the metropole. So, while
IOs are tasked with the job of decolonizing and modernizing, they also help metropoles enforce discipline over their colonial subjects. On the flipside, some colonies have a clear interest in retaining their status as subordinate within the kingdom (mainly for welfare transfers and trade access), a clear case of states willingly opting for subordination in international hierarchy (Lake, 2009, 172-174).

This paper is organised into four sections. The first considers the role of kingdoms within international orders, as they are commonly understood, and then what kingdom status within IOs affords states when we consider issues of hierarchy. The second section looks at the various actors involved in diplomacy between kingdoms and IOs, as well as issues of delegation. It is important to note that the metropole and the colony – terms I use with some hesitancy⁴ – are engaged in formal and informal types of diplomacy to try and get their way. The third section looks at the relationship between the Kingdom of the Netherlands, Curaçao in the Dutch Antilles, and the IMF during two economic crises. For Curaçao their ‘home’ crisis was in the 1990s, while since 2000 their role as an offshore financial centre has come under increasing scrutiny from Dutch authorities and the IMF. The fourth section applies the same treatment to the Kingdom of Denmark, the Faroe Islands, and the IMF during two economic crises. The first is an economic crisis in the Faroes in the mid-1990s, while the second is the most recent international financial crisis. The final section, unsurprisingly, concludes the paper.

In general, I suggest that ‘kingdoms’ raise issues of ‘organized hypocrisy’ that have been discussed in the International Relations literature for well over a decade now. What is most interesting, in my view, is how kingdom status fits into different logics of hierarchy (Cooley, 2005) and how it is used in association with broader normative changes over how polities should be governed (such as those changes commonly identified in literature that crosses over between Historical Sociology and International Relations). My key point here is that

⁴ Not all polities that could be considered a ‘metropole’ and ‘colony’ operate within kingdoms, and not all kingdoms have such a distinct division between where rules are created and where rules are imposed in distant occupied lands. However, metropole and colony gives a better sense of the relationship between the two polities than ‘core’ and ‘periphery’ and provides a better sense of the position from which actors from these polities engage diplomatically. While metropole and colony are somewhat loaded terms, I cannot think of terms that are superior in presenting the dynamics of the cases and their relationship to International Organizations. All suggestions are welcome.
kingdom status allows some metropoles to delegate reform in their colonies to IOs such as the IMF, and that this status is used as a disciplining device. Rationally this permits them to lower administrative costs and lever up the amount of international normative suasion on colonial elites, introducing multiple principals, while in practice kingdom status permits the metropole to retain final authority. I suggest that these dynamics have significant real world implications for microstates seeking to forge out their own development strategy. This includes the rise, fall, and blocking of particular economic strategies, such as becoming an offshore financial centre or a colony’s international financial capacity.

I. KINGDOMS AND HIERARCHY IN INTERNATIONAL ORDERS

The notion that IOs are involved with the business of modernizing is not only their mission (albeit it less explicitly about ‘modernization’ other than when it comes to administrative reform these days), but how International Relations commonly views changes in international order. Most academic texts in the field will consider the end of the Second World War as ushering in the end of colonialism and a change to the kind of interstate system most famously theorised by Kenneth Waltz (1979). For the more historically minded, a common tale about constitutional orders moves from democracy in Ancient Greece, through to various forms of polity in kingdoms, principalities, and city-states and then to arrive at the modern state and ‘international society’ (for example, Reus-Smit, 1999). Much effort has gone into demonstrating the importance of differing forms of governing in the modern interstate period, especially those who have pointed to the persistence of hierarchy (Hobson and Sharman, 2005; Cooley, 2005; Lake, 2009).

A quick survey of the field will bring out the key terms. David Lake is the notable among the scholars interested in issues of international hierarchy. Lake’s work on how social contracts are formed between dominant and subordinate members highlights how sovereignty is negotiated and how, in his words ‘International relations are not a uniform piece of cloth, but a rich tapestry of varying shades, hues, and patterns (Lake, 2009: 175). Kingdoms continue to provide one piece of cloth within this tapestry (not the velvet tights) that has not been appreciated thus far in International Relations. Other work on hierarchy has
stressed the importance of difference and self-differentiation among the units of the international system. Jack Donnelly’s work on ‘sovereign inequality’ operates on the notion that there really is no sovereign equality and that hierarchical relations persist (Donnelly, 2006). Also, Hobson and Sharman (2005) have noted the transforming character of hierarchies in international orders, including changing logics and normative stresses on religion, race, and ideology. Like others, Hobson and Sharman stress how hierarchy is an important ordering principle in a modern period of supposed sovereign equality.

One especially interesting take on international hierarchy is Alex Cooley’s (2005) work on distinguishing logics of hierarchy by organizational type, blending organizational and business studies with an investigation of empires, states, and military occupation. This is of interest because while Hobson and Sharman allow us to specify change in the broader normative environment in which kingdoms are used, Cooley helps in assisting us to think through different kinds of organizational forms that kingdoms may use or encounter. Cooley distinguishes U-forms and M-forms of hierarchy in the organization of dominance and differentiates the costs, information flows, and propensity for Principal-Agent problems within different governance structures. U-forms typically have higher administrative costs as institutions are created to harmonize relationships between the core and periphery, including imposing harmonizing standards. In M-forms the costs are lower as administration takes place in the periphery, with a higher incidence of patrimonial rule and poor information flows between the core and periphery. Such M-forms will maintain patrimonial relations and path dependencies in periphery, as the capacity to disobey the core is high. The organization of governance, including industry, can exhibit both forms. I return to how we can think about the role of kingdoms in how these forms are sustained or changed – and what these means for theories of hierarchy - in the concluding section.

As kingdoms are not really considered within this literature, and certainly not within the framework of modern international organization, we may turn to historical sociology for assistance. Certainly within the standard literature kingdoms provide a site of struggle, whereby they are characterised by complex networks of struggle, service and payment, where kings, lords and vassals attempt to increase their relative prestige. Rivalries among states in the modern interstate system are a product of these earlier struggles, and cannot
be isolated from this longer-term historical context (Elias, 1994, 277; Spruyt, 1994, 31). While we can state with great certainty that the declining power of kings is seen as one crucial aspect of Western modernization (Bendix, 1977, 394), the treatment of kingdoms as a form of governance provides some clues to how we can see how they operate as a device in international hierarchies.

Reinhard Bendix, for example, highlights how kingdoms led to the development of bodies of law that sought to reinforce networks and also provide a harmonizing function in a way not similar to the U-form discussed by Cooley (Bendix, 1978, 201). Over time sustaining the kingdom requires rulers to deal with legitimacy problems, especially if heightened awareness about the rule of laws, and any rights that accompany it, lead to dissent. According to Bendix:

> It has always been difficult to stabilize the authority of kings. Monarchical rule does not have a good solution to the problem of succession. Inheritance of the crown is easily upset by biological failure or by rival claims among members of the royal family. Uncertainty is also produced by the necessity to delegate authority, as well as the vagaries of foreign entanglements by means which the king and his grantees seek to tip the internal balance of power. These and related reasons of political instability undoubtedly impose great burdens on the population at large, and on occasion these burdens lead to popular revolts. Nevertheless, internal political instability mostly affects the ruling groups directly concerned with the affairs of the kingdom, and political instability probably has coexisted with a marked degree of social stability. The bulk of the population lived in isolated communities and households. People could do little to change their condition. Most of the time, life near the level of subsistence discourage even the most courageous from actions that would jeopardize such security as they enjoyed. Kings and their notables could fight their protracted battles for dominance at home and abroad only on the basis of this political submerged but economically active population (Bendix, 1978, 223).

Within a kingdom increased density among networks and greater economic costs to the general population would therefore highlight legitimacy problems. Greater harmonization and improved information flows would make this worse and rules with an interest in long-term rule would present themselves as one of the people for the people and continue to development what we understand now to be the modern state (Barker, 2001). To borrow from Cooley, the increasing use of U-forms of governance led to centralised modern states that, alongside the development of modern forms of capitalism, came to dominate and then form their own empires. By the late-nineteenth century states that were able to centralise and provide more economic benefits to the broader population, as well as engage democratic processes, were able to increase their ‘state capacity’ to engage in both
domestic and international realms. Those who continued to exhibit more federal and M-forms of organization developed weaker state capacities and were more likely to suffer in international political and economic life (Hobson, 1997). These weaker states did not develop empires.

Of course these dynamics cannot be seen everywhere while we can suggest that the modern state did indeed rise to prominence, the sequence by which this has happened is not certain. Indeed, this has been the key complaint about modernization – that it overstates how polities can move in sequence towards the idea of modernity (W.W. Rostow’s ‘take off’ theory comes immediately to mind). Those who successfully move down the path towards modernization – some would say civilization (Suzuki, 2009) – are more likely to be treated as fully-fledged members of the interstate system. As Bendix has argued, modernization as a sequence was an idea that was more readily available than capital for encouraging development in ‘follower’ societies from the mid-19\textsuperscript{th} century onward (Bendix, 1977, 419).\textsuperscript{5} We now have new terminology for various forms of modernization that are tied up with notion of good governance, global governance, and the like (Sending and Neumann, 2006).

In the cases presented below these notions of modernization in colonies are pushed mainly by agents operating under delegated authority from metropoles. This returns us to our key focus. For our discussion, kingdoms that belong to northwestern European states have performed a balancing act in how the metropole has organised its domination over the colony. Strong U-forms of organization have been prominent in the metropoles of the Kingdom of the Netherlands and the Kingdom of Denmark (exhibited, for example, by their fiscal capacity) while M-forms of organization were present in the colonies. This trend, I suggest, has increased, but with a twist from metropoles’ delegation of tasks to IOs.

\textsuperscript{5}In the distinction between who is modernized and who is not we have obvious questions of hierarchy that are complicated by the treatment of the modern state as an unproblematic entity. If we are aware that sequences vary widely, that there are recurrent and non-recurrent patterns, then we are better able to understand social structures (Abbott, 2001). This is a topic for another paper, but the simple point is that there is no reason to think that the powers associated with kingdoms cannot work alongside, and empower, the modern democratic state. The development of new forms of organising political life does not necessarily suggest that the old ones must die.
II. DELEGATION AND DIPLOMACY BETWEEN KINGDOMS AND INTERNATIONAL ORGANIZATIONS

It makes sense that modern kingdoms who are also members of IOs would seek to delegate administrative and reform task to an external power. The direct use of force over colonial possessions has long been out of fashion and, as Mlada Bukovansky has clarified, states operating in an international political culture have a strong incentive to ‘organize their domestic structures in a way as to coincide with the dominant legitimacy conceptions of the day’ (Bukovansky, 2002, 35). Under American hegemony the development of international organizations such as the IMF and the World Bank provided unprecedented opportunities for international cooperation and a new form of international governance. This new system, designed by a small number of British and American architects, was built on the US’s delegation of authority and changed the international political culture along (Ikenberry, 2001).

When states such as Denmark and the Netherlands confronted this new system they were not required to throw off their colonies. Rather, these states, like others, joined as ‘kingdoms’. Under the rules of membership the metropole had responsibility for maintaining the basic Articles of Agreement in the colonies. On this issue it is worth quoting Joseph Gold at length on how metropoles should treat their colonies on exchange rate matters (Article VIII):

> If the exchange control regulations of a region, such as the Netherlands Antilles, or a dependent territory, such as Hong Kong, are involved in an action in the courts of a member with which the region or territory is not connected, the member must apply Article VIII, Section 2(b) when the conditions of the provision are satisfied. The exchange control regulations are to be understood in both instances as those of the member that has accepted the Articles on its own behalf or in respect of its dependencies. Similarly, if the region or dependency has its own currency, that currency is a currency of the member, currency can be “involved” within the meaning of Article VIII, Section 2(b)… The reaction of a member’s courts, wherever they are located within its territories, to the exchange control regulations of any of its territories, to the exchange control regulations

---

6 It should be noted that many Scandinavian countries took a ‘wait and see’ approach to the new postwar order and joined later than many other countries. The Norwegians were the most prominent in the negotiations at Bretton Woods, an interesting aspect considering how poor they were at the time. I will happily recount a story about Denmark’s welcoming of the IMF to anyone who happens to see this footnote.
of any of its territories is an internal matter governed exclusively by domestic law. That law may apply more rigorous sanctions than unenforceability when exchange contracts are contrary to the exchange control regulations of any of the member’s territories (Gold, 1989, 356).

In short, the metropole is responsible for making sure the colony complies with the IMF’s basic principles, but when there is any dispute between the metropole and the colony, this is an internal matter. As such, sovereignty will be respected and no other IMF member will interfere in internal matters of the realm. With such membership conditions kingdoms are required to impose codes, rules and guidelines from IOs along with their own directives.

More importantly, the status of kingdom allows the metropole to call upon the IMF as a technical expert during periods in which parts of its kingdom are in trouble (cf. Atler, 2008). This can occur formally and informally. Formally the metropole can request IMF assistance through the conventional means of Stand-By Arrangements and, if needed, structural adjustment programmes. In these cases the colony undergoes the process of implementing reforms and reporting to the IMF, often with technical assistance from both the IMF and from the metropole. In a formal sense this increase the number of actors doing the delegating, so multiple principals emerge and, in theory, the colony would then have a much greater capacity for agency problems - to shirk and slip away from doing the tasks given to them. Scholars of Principal-Agent analysis in IOs suggest that the formal decision making rules of the IOs and the voting share of the principals within the organizations can go a long way in mitigating such problems (Nielson and Tierney, 2003, 242). In the case of kingdoms the presence of multiple principals is certain but the ultimate authority lies with the metropole. This may be because the colonies concerned are not on the world stage and Great Powers are unlikely to care. In any case, kingdom status allows the metropole to contain agency problems while also legitimating its actions through reference to an international authority. The metropole can delegate tasks to the IMF that reduce agency problems for both multiple and collective principals.

The informal story is more interesting. In dealing with their colonies, metropoles can request staff assistance for help from the IMF that does not have to go through the
Executive Board. The basis for this is that the metropole can request that the IMF staff assess the economic conditions of the colony and provides recommendations for reform. As the request does not go through the Executive Board, such a request cannot be voted upon or scrutinised by the board, which permits the metropole to avoid formal surveillance over its actions by the interstate system, as represented by the board and its various members and constituencies (Woods and Lombardi, 2006). The metropole is also not formally required to inform that colony on why IMF staff are conducting evaluations and for what purpose. Kingdom status therefore allows metropoles to use the IMF as a ‘spy’ on its own territories. As a disciplinary device this permits kingdoms to comply with international obligations within the modern interstate system, to use governing bodies of that system as disciplinary devices within its own realm, and to do so without sanction as long as other international norms, such as the use of physical force against a colony, are not violated.

The existence of such relationships within the international system pose problems for theories of international change that rely exclusively on interstate competition and the modern state as the key entity. Principal-Agent models, for example, would fail to see such dynamics because they fall out of the formal ‘game’ (Hawkins, et al. 2006). Work on hierarchy can identity such relationships but generally considers the role of vested interested in international hierarchies to be weak and therefore worthy of less attention (Lake, 2009, 41).

While we can state with confidence that the global impact of changes in Curaçao and the Faroes is minor, the political dynamics point to both older network relationships that cross over between kingdoms and the modern interstate system, as well as emergent governing properties in the international order. Varying forms of diplomatic engagement provide an example. As a consequence of the kingdom relationship, the metropole, the colony, and the IO are engaged in forms of diplomacy that extend beyond normal conventional interstate relationships. It has been noted that colonies are increasingly engaged in ‘para diplomacy’ by sending non-official missions to IOs and other polities in order to present their arguments.

---

on institutional reforms (Bartmann, 2006). The Faroes, for example, has representative offices in London and Brussels and is increasingly representing itself in interactions with IOs. Such ‘para diplomacy’ is in use to create normative pressure against the metropole, and can be interpreted as a challenge to the legitimacy of the kingdom.

Metropoles who are embedded in larger formal diplomatic games, such as Danish and Dutch involvement with the European Union must also consider these diplomatic issues. These can range from internal politics within the kingdom being constrained by EC and EU requirements (Adler-Nissen, 2009) to how some states can choose to ‘opt out’ of European rules (Adler-Nissen, 2010). Metropole’s use of kingdom status to send IMF missions to colonies also represents a form of para-diplomacy, since formal authority is not invoked.

These diplomatic variations also relate to what IOs can do and how their changing mandate can create change in the colonies. The phenomenon of ‘mission creep’ as a pathology within IOs has been well documented (Barnett and Finnemore, 2004, 72), whereby getting the job requires doing more in general. The IMF’s current activities extend beyond its mandate to include a range of reforms linked to good governance issues, fiscal (de)centralization, suggested land reforms, and other policy changes. This leads to an important question: when the metropole requests assistance from the IMF to deal with economic problems in its colonies, is it asking for particular or general assistance? As Bukovansky has noted, when it comes to the IMF: ‘Governance concerns may require restructuring the state, while restrictions on monetary policy may only require that existing institutions behave according to certain rules’ (Bukovansky, 2002, 35). When metropoles delegate to IOs they potentially – perhaps intentionally – introduce reform measures for which the metropole cannot be possibly be held to account. And because they have delegated those tasks to an IO that can easily be publicly defamed for ‘neoliberal’ policies, kingdoms can use IOs as bullies, spies, or scapegoats.
III. CURAÇAO, THE DUTCH KINGDOM, AND ECONOMIC CRISIS

Due to time constraints, I present the key points that are part of a larger narrative on the two couples – the Dutch and Curaçao in the Netherlands Antilles within the Kingdom of the Netherlands, and the Danes and the Faroe Islands within the Kingdom of Denmark. The presentation of the key points is based on what is public knowledge and what has been obtained that is of great importance from the research team’s interviews in Amsterdam, Brussels, Copenhagen, Curaçao, The Hague, Tórshavn, Willemstad, and Washington D.C. While the bullet point format below is undoubtedly a lazy way to present information, the points provide support to the argument above. I am happy to talk further about the details in person. As Jason Sharman is a key team member, he was extremely active in many of these interviews and can also assist if people have further questions.

The following are public facts:

- The Netherlands Antilles has a long history as being a colony that the Dutch have wanted to shake-off, but where the colony has wanted to stay. The Statuut between the Dutch and the islands of the Antilles formally rested on notions of equality, which have long been criticised for their inequalities.

- The Netherlands Antilles was formally dissolved in October 2010 and Curaçao is now a country within the Kingdom of the Netherlands. The Netherlands is responsible for foreign policy and defence, as well as overseeing Curaçao’s public debt relief program.

- The formation of the Antilles as an offshore financial centre was a development strategy encouraged by the Dutch. This worked in the 1980s (and has a history back to WWII) but the industry has declined in the last decade.

- The Antilles had a severe economic crisis in the 1990s and the IMF was called in by the Dutch to administrate programs, including programs where the key source of funding was from the Dutch themselves.

- The Antilles failed two IMF programs in the 1990s and public debt has remained a big issue for the Dutch authorities, who have sought different means of disciplining them. The IMF continues to monitor the Dutch Antilles and recently did an assessment of their offshore financial centre activities at the invitation of the Kingdom of the Netherlands.
Information from interview and archival sources in Amsterdam, The Hague, Willemstad, and Washington D.C.:

- The Dutch have supported the decline of offshore banking in the Antilles while developing their own business within the EU with tax haven-like behaviour, primarily through accounts and trust management.

- The EU has been especially keen on the Dutch getting rid of the offshore centre and the Dutch now discriminate against the Antilles on tax treaties.

- The Dutch have outsourced technical assistance to the IMF and hold the Antilles accountable to IMF standards.

- The Dutch have encouraged the IMF to assess offshore banking in the Antilles, including evaluations that have been at the invitation of the kingdom.

- Dutch management of Curaçao’s debt relief programme, following the predicted dissolution of the Antilles in 2010 (which happened) is based on a series of deals between the Dutch and Curaçao on public sector reform, including good governance proposals. It is in this light that the IMF has been involved in assessments and technical assistance, which continues today.

- IN GENERAL HERE WE HAVE A STORY OF HOW TASKS HAVE BEEN DELEGATED FROM THE DUTCH TO THE IMF IN ORDER TO MAKE THE COLONY CONFORM AND ALSO TO SUPPORT GOOD GOVERNANCE MEASURES BEYOND THE IMF’S OFFICIAL MANDATE.

IV. THE FAROES, THE DANISH KINGDOM AND ECONOMIC CRISIS

The following are public facts:

- The Faroes has been under Home Rule since 1948 and are considered to be a ‘a self-governing community within the Danish Realm’ (the *Rigsfællesskabet* – the ‘royal community’ or commonwealth).

- An independence movement in the Faroes has been actives for decades and especially since 1999 when a ‘white paper’ was produced that outlined how the Faroes could be independent. The Faroese call for independence hinges on finding oil and gas reserves at rates of commercial profitability.

- One third of the Faroese budget in the 1990s came from Denmark, a figure that has been reduced to 3-4% of the national budget. This reduction has been wished by both sides – from the Faroese side it is a question of independence. From the Danish side it is a question of lowering their direct transfers and administrative costs, especially since the 1990s when, in association with an economic crisis, there was public outrage in Denmark about the costs of public works in the Faroes.
- In the 1990s the Faroes suffered a severe economic crisis from a lack of fishing stock. Since then they have been interested in pursuing a range of strategies, including shipping registries, IT, and banking following the pre-2008 Icelandic model of aggressive expansion.

- In 2009 Eik Banki, the most aggressive of the two Faroese Banks was taken under control by the Danish government.

- Since then the Danish government has strengthened the power of its Financial Supervisory Authority (Finanstilsynet) to oversee Faroese financial institutions. Importantly, the main lines of oversight are compliance with international standards, including IMF, BIS, and OECD. While the Faroese are not members of the BIS or OECD they are required to comply with financial regulations used in ‘zone A’ countries. This is another form of Danish delegation and can be seen through the formal channels of diplomatic engagement.

Information from interview and archival sources in Tórshavn, Copenhagen, and Washington D.C.:

- The question of whether or not the Faroes should be a tax haven was last included in a consultation paper from the early 1990s that was funded by British Petroleum, one of the interests searching for commercial levels of oil and gas in the Faroes. When asked about the prospect for a tax haven, the response is that it is possible but many Faroese do not want to be the ‘black sheep’ among the Nordics and the Danes would oppose a move to become a tax haven in any way they can.

- Rumour has it that in the mid-1990s the Danish government requested that IMF staff write a report on the Faroese economy. This report was then, reportedly, used in budget negotiations between the metropole and the colony. It is unknown whether or not the Faroese knew about this request. This is a startling piece of informal delegation and ‘para-diplomacy’.

- There was supposed to be a referendum for independence in 2001. What happened instead is that under the Yvirtoðuklógin model the Faroese have been taking over policy areas. This fits with the notion that, along with costs, the relationship between the Danes and the Faroese has moved from a U-form to a M-form, with the Danes then using kingdom status to impose external discipline. From the Faroese side this is also a clear case of increasing their use of ‘para-diplomacy’, since the Yvirtoðuklógin model suggests the extension of Faroese interests into areas of foreign economic policy. Active policy learning is now taking place with other microstates, such as the Isle of Man.

- Danes have made efforts to bind the Faroese to the Greenlanders on a number of issues, such as bilateral tax agreements, in order to restrict their autonomy.
On accounting standards the Faroese have autonomy over this issue but have been forced to comply with Danish standards and now IFRS standards from 2009. They have Basel II from 2009 even though their financial system does not really need it.

In 2008 the strategy of aggressive investments was seen as shaky but there was much admiration for the Icelandic strategy. Had the Faroese turned to the IMF independently for advice on this issue from FSAP reports in 2003 and 2006 they would have followed this strategy as the IMF saw the strategy as vulnerable but well capitalised and profitable. Now the Danes have clamped down on Faroese institutions through direct actions and also international benchmarking.

The Faroese are engaged in para-diplomacy through representative offices and with IOs. The first interaction was to provide technical assistance on oil funds to Palau in association with the World Bank. This is a case of the Faroese carving out what they see to be their legitimate role in line with the IO strategy used by the metropole.

The Danes are under pressure from the EU to not permit tax haven like behaviour within their colonies. The Danes came under pressure in the mid-00s when their own legislation permitted tax haven-like behaviour in Denmark. This has now been repealed and the EU are placing harmonization pressures on different aspects of Danish finance.

CONCLUSION

This paper focuses on two cases in which states called upon their status as kingdoms to delegate tasks to an IO that then disciplined their colonies. In both the Dutch and Danish cases the metropole used the IMF to discipline their colonies through formal and informal channels. Dutch have done so with the Netherlands Antilles, while Denmark has done this with the Faroe Islands. During periods of economic crises in the colonies, the metropoles called upon their status within the Fund to use the Fund’s technical expertise (Barnett and Finnemore, 2004) as a means to encourage their colonies to follow a path of economic reform and lessen the fiscal burden of recovery upon the metropole. In this cases there is some significant variation. In the Dutch case the engagement of the Fund was much more direct and involved the establishment of loan conditions and a program of reform which the Antilles should have followed (they failed to, both times). These conditions followed the Fund normal policy mix for

austerity reforms and could easily be legitimated against an international standard. It also permitted the Dutch to later off to ‘bail out’ the Antilles for further political compromises – all the while blaming the Fund for its excessive measures. In the Danish case the Danes used the Fund staff in a more clandestine manner than the Dutch, and then had the Fund report back to the metropole with information the Danes could use when discovering future economic plans – and their burden within them – with the Faroese.

My aim in this paper has been to highlight the role of kingdoms within international hierarchies and, especially, how such older forms of governing are used in international organization. I conclude by reflecting on how the cases above match with Alex Cooley’s logics of hierarchy. On questions of hierarchy and delegation, we can reconsider the role of kingdoms in Cooley’s designation of U-forms and M-forms of organization and shifts between them. These forms can be mapped onto the Danish and Dutch cases discussed below. In the Dutch case, relations between the Netherlands and the Netherlands Antilles were characterised by U-forms through direct transfers, but have increasingly moved to M-forms as the Antilles has been split up, its weaker units placed under direct U-form administrative control, and its larger units encouraged to self-govern. The same may be said of the Danish case, where the extent of U-form administrative costs in the Faroes was criticised in the core, Denmark. The alternative is support greater self-reliance and shift more responsibility to M-forms of governance. What is interesting here is that the kingdom as an ongoing device of state rule permits the core to reduce the amount of likely patrimonial rule associated with M-forms of organization by delegating administrative and enforcement tasks to IOs. The Netherlands and Denmark can reduce their direct administrative costs and direct payments to Curaçao and the Faroes, respectively, by insisting on the role of ‘national authority’ that is then benchmarked to international conventions and overseen by IOs. The status of kingdom permits these states to do so, maintaining order in their colonies at a lower cost while also fitting snugly with international norms of self-responsibility and good governance that represent the standards of civilization within the international political economy (Bowden and Seabrooke, 2006).
Cooley demonstrates that in the post-Soviet period states have been able to abuse the IMF and the World Bank by calling upon their membership entitlements as sovereign states while exploiting multiple principals (Cooley, 2005, 122-4). This is indicative of M-forms of organization, where local elites are allowed to maintain their networks. From the cases above kingdom status provides a twist to this story by providing one means to contain agency problems. While the Faroes and Curaçao are more engaged with IOs than ever before and more responsibilities are being given to their national authorities, their capacity to act out of turn has been greatly reduced. In theory these semi-autonomous polities have multiple principals in how they conduct themselves in the world economy. In reality their continuing choice to remain within their respective kingdom leaves the metropole with the ultimate responsibility and authority. In this manner kingdoms’ use of IOs can be interpreted as a form of strategic restraint - a micro-version of G. John Ikenberry’s (2001) argument on US power and international institutions – given that direct ill treatment of colonies is no longer acceptable according to the norms of international society. States can then legitimately use the status of kingdoms through delegation. Such delegation is legitimate within the broader international system because it reflects a self-limitation of the kingdom’s power in tune with the normative order of the period (cf. Lake, 2009: 177). This also works because metropoles can sensibly delegate tasks of administration, enforcement and sanctioning to IOs as ‘trustees’ (Atler, 2008) who can use their professional skills and knowledge to create change in colonies. Given that IOs are commonly considered the holders of world’s best practice in a range of policy areas, delegating policy advice to them does not raise much contention in the international community.

The argument presented above also fits with Kayaoğlu’s (2010) recent argument that from the mid-19th Century Western states engaging the East created a ‘legal imperialism’, whereby states created codes, enforceable rules and an appellate system that permitted rulers to regulate transnational interactions. Mutual recognition of sovereignty and domestic legal structures facilitated trade and lowered transaction costs. Such mutual sovereign recognition, legalization, and policy learning has been the focus of work concerned with policy diffusion in recent years (Simmons, Dobbin, and Garrett, 2008). If we locate the role of kingdoms within this historical process, mutual sovereign recognition of the rights of kingdoms sustained the metropole-colony relationships described above.
Kingdoms then allow such ‘legal imperialism’ to take place in a manner in which the metropole can call upon IOs for support while colonies have few exit options other than leaving the kingdom. Finally, in looking at these cases issues of hierarchy and delegation come to the fore through a clash between the responsibility towards one’s kingdom, one’s regional commitments, and one’s international economic development responsibilities. As Lake and others suggest, even within hierarchies it is those subordinate in a relationship to those who are dominant, not the other way around (Lake, 2009: 175).

REFERENCES


Author’s Interviews in Tórshavn, Faroe Islands, 2008; Willemstad, Netherlands Antilles, 2009; Rarotonga, Cook Islands 2009; Amsterdam, The Netherlands 2009.


Bartmann, Barry (2006) ‘In or out: Sub-national island jurisdictions and the antechamber of para-diplomacy’, *The Round Table* 95, 386,541- 559.


