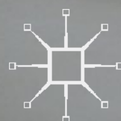
International Political Economy Series

Poor States, Power and the Politics of IMF Reform

Drivers of Change in the Post-Washington Consensus

Mark Hibben



International Political Economy Series

Series editor

Timothy M. Shaw
Visiting Professor at the University
of Massachusetts Boston, USA,
and Emeritus Professor at
the University of London, UK

Aims of the Series

The global political economy is in flux as a series of cumulative crises impacts its organization and governance. The IPE series has tracked its development in both analysis and structure over the last three decades. It has always had a concentration on the global South. Now the South increasingly challenges the North as the centre of development, also reflected in a growing number of submissions and publications on indebted Eurozone economies in Southern Europe. An indispensable resource for scholars and researchers, the series examines a variety of capitalisms and connections by focusing on emerging economies, companies and sectors, debates and policies. It informs diverse policy communities as the established trans-Atlantic North declines and 'the rest', especially the BRICS, rise.

More information about this series at
http://www.springer.com/series/13996

Mark Hibben

Poor States, Power and the Politics of IMF Reform

Drivers of Change in the Post-Washington Consensus

palgrave
macmillan

Mark Hibben
Assistant Professor of Political Science
Saint Joseph's College of Maine
Standish, Maine, USA

International Political Economy Series
ISBN 978-1-137-57749-8 ISBN 978-1-137-57750-4 (eBook)
DOI 10.1057/978-1-137-57750-4

Library of Congress Control Number: 2016939250

© The Editor(s) (if applicable) and The Author(s) 2016
The author(s) has/have asserted their right(s) to be identified as the author(s) of this work in accordance with the Copyright, Designs and Patents Act 1988.
This work is subject to copyright. All rights are solely and exclusively licensed by the Publisher, whether the whole or part of the material is concerned, specifically the rights of translation, reprinting, reuse of illustrations, recitation, broadcasting, reproduction on microfilms or in any other physical way, and transmission or information storage and retrieval, electronic adaptation, computer software, or by similar or dissimilar methodology now known or hereafter developed.
The use of general descriptive names, registered names, trademarks, service marks, etc. in this publication does not imply, even in the absence of a specific statement, that such names are exempt from the relevant protective laws and regulations and therefore free for general use.
The publisher, the authors and the editors are safe to assume that the advice and information in this book are believed to be true and accurate at the date of publication. Neither the publisher nor the authors or the editors give a warranty, express or implied, with respect to the material contained herein or for any errors or omissions that may have been made.

Cover image: © Rob Friedman/iStockphoto.com

Printed on acid-free paper

This Palgrave Macmillan imprint is published by Springer Nature
The registered company is Macmillan Publishers Ltd. London

For Skate and Fergus

Preface

This book would not have been completed if not for the support of colleagues, friends, IMF staff, and family.

Thanks first to my professors at Syracuse University—Mark Rupert, Matt Cleary, Jon Hanson, and Audie Klotz. Both within the classroom and while working on this book, they challenged me to think more clearly and question preconceived notions of how the world works. Critique, however, was done in a spirit that opened up opportunities for growth and learning. I take their examples forward with me in my teaching and research career. Beyond academics, Mark, Matt, Jon, and Audie all offered invaluable support at different stages of the PhD process and my early career. Thank you all. Bessma Momani provided invaluable feedback on this project. I look forward to our future work together on the IMF. Special thanks also to Michael Connolly, colleague and friend at Saint Joseph's College of Maine, who gave so much support and guidance.

Staff members at the IMF were extremely helpful in setting up interviews and granting access to archival material. Special thanks to IMF archivist Premela Isaac; Jeremy Marks and Marjorie Henriquez from the Fund's communications department and staff from the strategy, policy, and review department, African department, and research department. Along with IMF staff generous with their time, I must also thank current and former executive directors of the Fund who spent time discussing their perspectives on IMF policy change and formation. Thanks also to Palgrave Macmillan for their permission to reprint sections from an article ('Coalitions of Change') published in the *Journal of, International Relations and Development* throughout Chaps. 4, 5, 6, and 7.

Finally, I want to extend my gratitude to family members and my partner for their long-term support through thick and thin. My parents, Stuart Hibben and Dietlinde Lamparter, my brothers Kent and Christopher, and my dear Uncle Craig all played key roles in pushing me to this point. Kate Adams, my wife and best friend, somehow managed to see the big picture when her partner did not. This book is dedicated to her.

Mark Hibben
Assistant Professor of Political Science
Saint Joseph's College of Maine
Standish, Maine, USA

Contents

1 The IMF, LIDC Reform, and the Post-Washington Consensus 1

2 The IMF and LIDCs 29

3 Theorizing Post-Washington Consensus LIDC Reform 61

4 The HIPC and HIPC II Initiatives 91

5 'Pro-Poor' Concessionary Lending: The PRGF 115

6 Deepening the IMF's Development Model: The ECF, RCF, and SCF Reform 143

7 Conclusion 167

Bibliography 177

Index 181

Abbreviations

AFR	African Department
APD	Asia and Pacific Department
CFF	Compensatory Financing Facility
ECF	Extended Credit Facility
EFF	Extended Fund Facility
EMs	Emerging Market Countries
ENDA	Emergency Natural Disaster Assistance
EPCA	Emergency Post-Conflict Assistance
EP	Economist Program
ESAF	Enhanced Structural Adjustment Facility
EU	European Union
EURODAD	European Network on Debt and Development
G-7	Group of Seven
G-20	Group of Twenty
GAB	General Arrangements to Borrow
GATT	General Agreement on Tariffs and Trade
GFSR	Global Financial Stability Report
GNI	Gross National Income
HIPC	Heavily Indebted Poor Country Initiative
HIPC II	Enhanced Heavily Indebted Poor County Initiative
IDA	International Development Association
IEO	Independent Evaluation Office
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
IOs	International Organizations
ISI	import substitution industrialization
LICs	Low Income Countries

LIDCs	Low Income Developing Countries
LOI	Letter of Intent
MAP	Mutual Assessment Process
MCM	Monetary and Capital Markets Department
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
NAB	New Arrangements to Borrow
NBER	National Bureau of Economic Research
NGOs	non-governmental organizations
OECD	Organisation for Economic Co-operation and Development
PA	principal-agent
PCDR	Post-Catastrophic Debt Relief Trust
PCL	Precautionary Credit Line
PFP	Policy Framework Paper
PRGF	Poverty Reduction and Growth Facility
PRSPs	Poverty Reduction Strategy Papers
PSI	Policy Support Instrument
RCF	Rapid Credit Facility
RES	Research Department
SAF	Structural Adjustment Facility
SAPs	Structural Adjustment Programs
SBA	Stand-By Arrangement
SCF	Standby Credit Facility
SDR	Special Drawing Rights
SDGs	Sustainable Development Goals
SPR	Strategy, Policy, and Review Department
SDDS	Special Data Dissemination Standard
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
WEO	World Economic Outlook
WEF	World Economic Forum
WTO	World Trade Organization

List of Figures

Fig. 1.1	Four cases of post-Washington Consensus IMF LIDC reform (1996–2010)	7
Fig. 1.2	Low income developing countries	13
Fig. 2.1	IMF managing directors: 1946–2015	33
Fig. 2.2	IMF lending facilities	35
Fig. 2.3	Strategy policy and review department	37
Fig. 2.4	Economist program recruits (1985–2010)	40
Fig. 3.1	Types of PA relationships	67
Fig. 3.2	IMF chain of delegation	68
Fig. 3.3	Principals at two levels of delegation chain	68
Fig. 6.1	Target LIDC inflation rates (1995–2011)	154

List of Tables

Table 3.1 Five economic schools of thought 75
Table 7.1 Coalitions of IMF LIDC reform (1996–2010) 168

CHAPTER 1

The IMF, LIDC Reform, and the Post-Washington Consensus

The International Monetary Fund (IMF) is back. Relegated to the sidelines of global governance in the first decade of the twenty-first century, the fallout from the 2008 global financial crisis has restored the institution's prestige and power. This revival is expressed most directly by a sharp upsurge in the Fund's lending activity. Between 2009 and 2014, the IMF dispensed 118 loans valued at US$622 billion to its member states, a stark contrast to the comparatively paltry US$82 billion allocated between 2003 and 2008.[1] IMF engagement in the G-20, along with its role in the troubled Eurozone and during the Greek crisis, also has raised the profile of the institution.[2] In addition, Managing Director Christine Lagarde has called on the Fund to lead 'a new multilateralism for the 21st century'. For Lagarde, the IMF is uniquely positioned to battle increased risks of systemic economic contagion, protectionism and unilateralism, and even political extremism (Lagarde 2014). Perhaps more so now than ever in its seven-decade history, the resurgent IMF sees itself as the indispensable cornerstone of a liberal economic and political global order.

The post-2008 rebirth of the IMF includes another dynamic that has generally slipped under the radar of its contemporary studies. After several decades of often controversial engagement in the global South, the Fund has substantially increased resources and institutional focus on its poorest

© The Editor(s) (if applicable) and The Author(s) 2016

M. Hibben, *Poor States, Power and the Politics of IMF Reform*, International Political Economy Series,
DOI 10.1057/978-1-137-57750-4_1

member countries. These 60 states, currently categorized as 'low income developing countries' (LIDCs) or 'low income countries' (LICs) within the Fund, consist of nations that fall below an annual US$2390 per capita gross national income (GNI) level.[3] Supported in large part by the sale of one-eighth of the IMF's gold reserves in 2009, financing available for LIDCs now stands at approximately US$18 billion. Fund lending to LIDCs from 2009 to 2014 totaled US$10.1 billion, which in annual terms stands at four times the institution's historical average. In addition, forums focused on LIDC issues, support for regional technical assistance (TA) centers, and institutional outreach to stakeholders in poor states increased after the 2008 crisis.[4] IMF management, led initially by former Managing Director Dominique Strauss-Kahn, also has advocated for greater LIDC 'voice' in Fund decision making. The currently stalled 14th Review of General Quotas, for example, would increase the voting share of LIDCs and expand the number of alterative executive directors for African states. And finally, the IMF's concessionary lending facility designed for LIDCs was overhauled in 2010.

As documented in the IMF literature, the institution impacts macroeconomic and development outcomes in poor states (Bird 1995; Barnett and Finnemore 2004; Dreher 2006; Woods 2006; Vreeland 2007; Boughton and Lombardi 2009). This proves particularly salient in LIDCs. Given their extreme poverty, often limited institutional capacity, and high dependence on multilateral and bilateral assistance, LIDCs enjoy little leverage in their dealings with the Fund. LIDC governments are instead highly reactive to both direct IMF policy pressure and indirect forms of its institutional and ideological power. Conditions tied to Fund loans include monetary and fiscal policy targets and economic restructuring benchmarks that affect growth and poverty rates, education and health outcomes, environmental quality, and employment levels. TA programs focused on improving economic performance through institutional reform also represent a key variable that shapes LIDC policy choices. Other non-financial programs include the Policy Support Instrument (PSI). The PSI is specifically designed to send signals to markets and the donor community that the LIDC in question is pursuing 'appropriate' policy choices. The IMF also champions a liberal market model that has been internalized by member state elites as de facto 'common sense' (Taylor 2004; Rückert 2007). This ability to influence the policy agenda and shape preferences in LIDCs arguably represents a key component of the Fund's power in poor states.

1.1 What Drives Post-Washington Consensus IMF LIDC Reform and Why Does It Matter?

This book is a response to four facts. First, the policy choices and belief systems of the IMF directly and indirectly impact the lives of approximately 1.2 billion people who reside in LIDCs. Second, the resurgent IMF has increased its policy footprint in LIDCs. Third, the post-2008 period has witnessed increased policy debates within the institution that could fundamentally shift macroeconomic and development outcomes in LIDCs. These debates include an emerging chorus of influential voices in the institution that are pushing the IMF to seriously engage with issues of inequality, unemployment, and 'inclusive growth' in LIDC policy. If formal IMF policy reforms that address these issues are adopted and implemented, the lives of many of the world's poorest people will substantially improve. And fourth, while scholarship focused on the IMF has identified variables that influence policy choices in the institution, the literature has not specifically elucidated what factors drive successful cases of LIDC policy reform.

Addressing this gap in the literature fulfills both practical and academic objectives. With regard to practical outcomes, the knowledge gained from this book provides a roadmap for development practitioners and activists focused on the global South to more effectively shape contemporary IMF LIDC policy and reform. This is particularly timely as a series of new initiatives focused on the world's poorest states are being developed by multilateral institutions. These include the new Sustainable Development Goals (SDGs) that were adopted by the United Nations (UN) in 2015. The 17 SDGs replaced the expired Millennium Development Goals (MDGs) and commit the global community to eradicating poverty, reducing inequality, increasing gender equality, promoting inclusive growth, and combating climate change by 2030. The IMF has been a prominent supporter of the SDGs. This offers a unique opportunity to influence IMF policy in a manner that substantively facilitates the successful realization of the SDGs in LIDCs.

With regard to academic objectives, this book advances knowledge of the IMF in several key areas. Foremost, literature on the IMF has not undertaken a comparative study of contemporary cases of LIDC reform. This includes the most recent case that replaced the concessionary Poverty Reduction and Growth Facility (PRGF) in 2010. Evidence drawn from a comparative analysis of LIDC reform is crucial, as it clarifies what factors facilitate or block IMF policy changes for its poorest member states. Second,

with its specific focus on a subset of countries within the Fund, this book unpacks further the 'black box' of the institution previously pried open by IMF literature. Among other findings, this study demonstrates that there is a history of LIDC staff divergence from a broader institutional culture that reinforces homogeneous thinking, and these differences matter in processes related to reform. And third, I draw from three theoretical platforms in this study of contemporary LIDC reform. These include 'mainstream' rationalist and constructivist theory, as well as a historical structural framework rooted in the neo-Gramscian tradition. Despite the ontological and epistemological tensions within such an approach, I maintain that the use of a diverse theoretical arsenal maximizes analytical leverage when explaining LIDC reform. This framework also could be effectively used in other studies of multilateral institutional change.

Given the intention and focus of this book, I examine first IMF scholarship that specifically focuses on the institution's LIDC policy. Most developed in this regard are the contributions of Liam Clegg and Jacqueline Best. Clegg (2013), in a comparative study of the IMF and World Bank, examines mechanisms of control exerted by powerful states ('shareholders') and groups representing individuals on the ground in LIDCs ('stakeholders') on the institution's concessional lending programs. In Clegg's model, crisis points are key vectors of change as they destabilize the IMF's and World Bank's understanding of how they should operate to fulfill institutional objectives. If shareholders establish 'a new standard of appropriateness' during a crisis, new norms emerge, and subsequent shifts in operational practices quickly follow. Otherwise, a more incremental and open-ended process of change can occur. Clegg finds that the dynamics within the IMF and World Bank demonstrate that shareholders have maintained high levels of control over processes tied to concessionary lending following crisis points. Stakeholders in the IMF have enjoyed far less control or integration into decision-making processes. Rather, in response to the rising importance of private finance in lending arrangements, domestic stakeholders have evolved to take on 'disciplinary' roles designed to check corrupt or dysfunctional government behavior. Despite the privileged position of shareholders, Clegg (2012a) documents an important division within the powerful states that impact IMF LIDC policy. The USA has historically argued against expanding the IMF's policy focus on development issues through concessionary lending initiatives. In contrast, the UK and France have advocated for the integration of development concerns into IMF LIDC programs. In periods of crisis including the late 1990s and 2008, this 'developmentalist' wing has produced coalitions that successfully countered the US 'minimalist' position.

In addition, Clegg (2012b) highlights how powerful state interests shape policy norms through dynamics found in executive board meetings. While examining the debates leading to the 1987 adoption of the Enhanced Structural Adjustment Facility (ESAF), Clegg uncovers that the viewpoints of the powerful states in support of strict conditionality were reported by the managing director as the formal consensus of the board. The preferences of the poor states against such provisions, in contrast, were downplayed and not reported. This dynamic allowed staff to fully move forward with conditional lending programs and subsequently produced a norm change in the institution toward LIDCs. A more recent study (Clegg 2014) focused on processes of change in concessional lending policy. Clegg identifies three intervening variables that facilitate 'rapid operational change' relative to US congressional preferences. These include a legally binding 'legislative mandate' by the US Congress that requires the US executive director to use her voting power in the institution in a manner consistent with congressional objectives. Support of the policy change from powerful state executive directors and an effective hierarchical bureaucratic structure that enforces staff compliance with the new policy directives sanctioned by the executive board are also necessary for rapid operational change.

Jacqueline Best (2007, 2014) argues that the IMF's post-Washington Consensus reforms are driven by a series of policy failures that have challenged the Fund's 'expert authority'. Fallout from the Asian crisis and LIDC policy failures in Africa, for example, have sparked a broad-based 'legitimacy crisis' that has spurred the IMF and other multilateral institutions into action. Best highlights that a shift in the form of legitimacy is underway, where the narrowly defined 'expert-based' form is being supplanted by a 'political' form. This has produced four broad governance strategies that impact policy choices: fostering country ownership, developing global standards, managing risk and vulnerability, and measuring results.

In addition to Clegg and Best, other studies of the IMF identify a variety of actors and factors that have influenced policy formation and reform. Kathryn Lavelle (2011) documents that the US Congress pushed the Fund to deepen its commitment to debt relief in processes leading up to the 1999 enhanced Heavily Indebted Poor Country Initiative (HIPC II). Antje Vetterlein (2010) traces how the IMF's executive board responded to broad external criticism of conditionality requirements and pushed the institution to approve the Poverty Reduction Strategy Paper (PRSP) framework in 1999. Bessma Momani (2010) highlights that in addition to the executive board, Fund staff and management played an integral role in LIDC policy reforms in the past. The IMF adoption of the HIPC in 1996, for example,

was strongly influenced by senior staff members and Managing Director Michel Camdessus. André Broome (2009) also establishes that non-governmental organizations (NGOs) successfully reframed LIDC debt relief as a moral issue in the 1990s, and in doing so, helped implement Fund reform.

While actors and variables tied to individual episodes of IMF LIDC change have been identified in the literature, no comparative analysis across cases of LIDC reform has been undertaken. This limits knowledge in several key areas. Can we observe, for example, any patterns that promote or block IMF LIDC change? Does the evidence from past cases of LIDC policy reform point to any recognizable threshold conditions that must be met for reform to occur? Can we discern any generalizable patterns in these cases that can be used to predict the outcome of future cases of IMF LIDC policy change? Are these episodes of LIDC reform reflective of deeper shifts in power dynamics and social forces tied to early twenty-first-century globalization? And if so, how do these broad-based shifts in global power dynamics and social forces impact contemporary LIDC policy reform?

This book addresses these questions by examining four major cases of IMF LIDC reform that occurred between 1996 and 2010 (see Fig. 1.1).[5] The 1996 HIPC introduced a series of policies designed to lower the debt burden of LIDCs. It also marked the first formal recognition by the Fund that a decade and a half of Structural Adjustment Programs (SAPs) instituted after the 1982 Mexican debt crisis has failed to adequately address issues of severe multilateral debt. In 1999, the HIPC was replaced with the HIPC II, which called for significant debt forgiveness and support of 'pro-poor' growth strategies. This was organized through the introduction of PRSPs, which spelled out how the recipient LIDCs used resources from the IMF (and World Bank) to reduce poverty in accordance with the MDGs of the UN.[6]

The year 1999 also witnessed major reforms in concessionary lending facilities for LIDCs when the PRGF replaced the ESAF. The ESAF, created in 1987, proved controversial as conditionality requirements focused on anti-inflationary stabilization and liberal market structural adjustment produced social upheaval in many poor countries. The PRGF embraced a less rigid policy position and also prioritized poverty reduction and 'pro-poor growth' as essential components of a successful macroeconomic and development strategy. As with the HIPC II, the PRGF required that the recipient states develop a PRSP to ensure a focus on poverty reduction and an ownership of policy decisions by various in-country stakeholders.

Title of reform	*Year*	*Policy change?`*
Heavily Indebted Poor Country Initiative (HIPC)	1996	-Limited debt relief for LIDCs
Enhanced Heavily Indebted Poor Country Initiative (HIPC II)	1999	-Replaced HIPC -Introduces PRSPs
Poverty Reduction and Growth Facility (PRGF)	1999	-Replaced ESAF
Extended Credit Facility (ECF) Rapid Credit Facility (RCF) Stand-By Credit Facility (SCF)	2010	-Replaced PRGF

Fig. 1.1 Four cases of post-Washington Consensus IMF LIDC reform (1996–2010)

The years 2009–2010 saw the fourth major contemporary shift in formal Fund policy toward LIDCs. The PRGF was replaced with the Extended Credit Facility (ECF), along with the creation of the Rapid Credit Facility (RCF) and Stand-by Credit Facility (SCF). Loans under these initiatives are both highly concessional and contain more flexible requirements than the previous PRGF. Monetary and fiscal policy advice tied to ECF, RCF, and SCF lending also suggest a shift in thinking among IMF LIDC policymakers toward more Keynesian practices. Support for countercyclical monetary and fiscal stimulus reemerged as an acceptable policy tool to combat economic down turns. Targets levels of inflation also increased. These shifts stand in stark contrast to nearly three decades of policy that prioritized price stability and often advocated for procyclical austerity during recessionary periods.

These four cases of IMF LIDC reform fall within the current 'post-Washington Consensus' period. This term captures in a broad manner a rejection of the 'Washington Consensus' paradigm that heavily influenced IMF policies from the early 1980s to the late 1990s.[7] Supporters of the Washington Consensus maintained that price stability, privatization, and liberalization represented the best strategy for poor states to successfully grow and integrate into the emerging global economy. In the case of the IMF and LIDCs, this translated into conditionality requirements focused on dismantling the remnants of Import Substitution Industrialization (ISI) strategies that were highly popular in non-communist developing states between the 1930s and early 1980s.

Proponents of ISI argued that developing countries heavily involved in primary exports experience long-term decline in demand and price for their

products compared to manufactured goods (Prebisch 1950; Singer 1950; Hirschman 1958). ISI policies, therefore, focused on industrializing poor states 'from within', through a series of measures that included: (1) tariffs and quotas on imported consumer goods and overvalued exchange rates to stimulate internal consumer demand for infant industries, while allowing the importation of select materials needed for production; (2) significant investment by the state in infrastructure required for industrialization; (3) nationalization of key industries (oil, utilities) or creation of state-private consortiums; and (4) support of an urban workforce through price controls and subsidies for basics including food, housing, and fuel. As developed further in Chap. 5, there was broad consensus within the IMF by the early 1980s that ISI inspired policies were the main cause of balance of payment difficulties, economic inefficiency, and the corruption seen in much of the developing world at the time.

Facilitated in part by growing pressure mounted by social movements and evidence that the Washington Consensus reforms had failed to produce expected growth outcomes in the global South, the late 1990s witnessed broad-based challenges to macroeconomic and development policies pushed by the IMF and the World Bank. Along with World Bank President John Wolfensohn, an ideologically diverse group of economists that included Joseph Stiglitz and Jagdish Bhagwati criticized the Washington Consensus model. At the eve of the 2008 crisis, Stiglitz summed up the post-Washington Consensus thinking that had emerged since the late 1990s as follows.[8] It rejects development models that advocate a minimal role of the state and carte blanche privatization and liberalization; it highlights the importance of effective market and state institutions; it emphasizes the importance of addressing poverty; and it stresses diversity in policy response rather than a 'one size fits all' macroeconomic and development model (Stiglitz 2008: 53–4). As explored in the following chapters, these themes were prominently reflected in—and influenced—LIDC reform efforts.

1.2 Contested Areas of IMF LIDC Policy in the Post-2008 Era

Three contested themes have emerged in the IMF since the 2008 global financial crisis. First, the crisis facilitated a reassessment of three decades of macroeconomic thinking that prioritized price stability over other macroeconomic outcomes. Within the Fund, this shift in thinking was reinforced

by former Managing Director Dominique Strauss-Kahn (2007–2011) and Chief Economist Olivier Blanchard (2008–2015). Since the crisis, LIDC policy positions are generally more supportive of countercyclical expansionary fiscal response, higher inflationary targets, and automatic fiscal stabilizers. The IMF notes that the majority of LIDCs managed the global financial crisis successfully due to countercyclical fiscal and monetary policy response and substantial concessional lending programs supported by the institution. As of 2015, however, there are mixed signals that the Fund may have fully embraced a more 'activist' fiscal and monetary policy position. A focus on fiscal consolidation, for example, has reemerged as a central issue since 2013 in LIDC policy debates.

The second notable theme is the Fund's engagement with issues of inequality and its relationship to macroeconomic stability and growth. Starting in the late 1990s with the introduction of the PRGF and PRSPs, the IMF adopted a series of 'pro-poor' policy measures that highlighted poverty reduction as a key variable necessary for medium- and long- term economic growth and stability in LIDCs. Prior to the 2008 crisis, however, the role of inequality, in its relationship to both poverty and economic growth, was downplayed. Since the crisis, concerns about inequality have entered the mainstream of Fund policy debates. This is best exemplified by the institutional signals first sent by the IMF in the September 2011 issue of *Finance and Development*.[9] In the issue, senior staff in the Fund's influential research department argued that severe and prolonged inequality undermined macroeconomic stability, sustained growth, and subsequent successful development (Berg and Ostry 2011). Since 2011, the topic of inequality has moved to the center of policy debates within the institution (IMF 2014b, IMF 2014c). As with the shift toward more traditional Keynesian macroeconomic practices following the 2008 crisis, this new focus on inequality and redistribution remains controversial within the IMF.

The third theme that has emerged since the crisis is the growing support within the Fund for an 'inclusive growth' model (IMF 2013a). Advocates of inclusive growth, including Managing Director Christine Lagarde, argue that the IMF should take a proactive role in integrating populations traditionally excluded from economic opportunity. Categories highlighted include women and populations historically employed in informal economic sectors. Extending the themes above, supporters of the inclusive growth model maintain that IMF policies should address severe inequality; they also support macroeconomic policies that increase employment

in IMF LIDCs. If fully adopted, the inclusive growth model will challenge deeply held norms among more conservative members of the Fund staff. A serious commitment to—and integration of—the inclusive growth model in IMF LIDCs policy positions also could radically recalibrate the relationship between the Fund and its poorest member states.

In sum, the post-Washington Consensus period is characterized by a broad-based and fluctuating rethinking of the relationship between states, markets, macroeconomic policy, and development. As demonstrated by current debates within the IMF, rejection of the Washington Consensus has been replaced by a diverse and contested range of arguments on how best the Fund and other powerful multilateral institutions should in fact engage with LIDCs (Rodrik 2006). The post-Washington Consensus period has also produced a more complex landscape where the IMF expresses its power and leverage in LIDCs in diverse ways. Rather than a 'one size fits all' model pushed by the IMF during the Washington Consensus period, the past two decades are marked by a more consensual and multilayered reality. This dynamic is reinforced further by Fund LIDC staff who exhibit greater openness and flexibility in policy choices than their peers working in more prestigious and powerful departments in the institution. The current flux and increased complexity in the post-Washington Consensus period therefore represents a critical juncture in the relationship between the IMF and twenty-first-century outcomes in the world's poorest states. A clarification of the factors that drive LIDC policy change is therefore particularly pertinent for those interested in strategically pursuing future reform efforts and influencing development policy trajectories in the global South.

1.3 Who Are the LIDCs?

The IMF divides its 188 member states into three major groups: 34 'advanced economies', 94 'emerging market' countries (EMs), and 60 LIDCs. In rationalizing this categorization scheme, the Fund highlights several key characteristics that differentiate LIDCs from poor and middle-income EMs. These include a significantly larger share of economic activity devoted to agriculture (27 % vs. 8 % in EMs), weaker infrastructure and institutional capacity, heavier reliance on foreign aid, and a larger informal sector (51.1 % vs. 35.8 % in EMs). As of 2010, 40.6 % of individuals lived on less than US$1.25/day in LIDCs. Infant mortality rates stood at 52.7/1000. EMs, in comparison, had substantially lower severe poverty rates (6.6 %) and infant mortality (18.2/1000). Income inequality remains extremely high in both LIDCs and EMs (IMF 2014a: 10–1).

In response to the economic and structural diversity found within the 60 LIDCs, the IMF employs four overlapping subcategories when discussing it poorest member states (see Fig. 1.2). 'Frontier markets' are closest to EMs in their financial sector profile, access to international capital markets, and quality of their institutions. Of the 14 LIDCs currently in this subcategory, Nigeria, Vietnam, and Bangladesh account for nearly 70 % of economic output. Five frontier market LIDCs (Bolivia, Mongolia, Nigeria, Papua New Guinea, and Zambia) also are categorized as 'commodity exporters'. Commodity exporters derive at least 50 % of their export earnings from fuel and primary commodities. In total, 27 states fall into this subcategory. The 28 LIDCs with broad-based internal conflicts or extremely weak institutional capacity are characterized as 'fragile states'. Examples include Haiti, Sudan, Yemen, Myanmar, and the Democratic Republic of Congo. Countries that do not fit easily into the above subgroups fall into the 'others' category. Within this subgroup, Ethiopia, Cameroon, Cambodia, and Honduras are the most prominent economies.

High commodity prices, substantial Chinese investment in sub-Saharan Africa (SSA), and international debt relief have helped push the average real GDP growth in LIDCs from 3.6 % in the 1990s to 6.6 % in the time period from 2000 to 2012. LIDCs as a group also proved resilient to the global financial crisis. For example, 80 % of LIDCs maintained positive GDP growth in 2009 and rebounded to precrisis levels by 2010. Economic resilience was most pronounced in frontier market LIDCs where growth rates averaged 7.1 %. A majority of frontier market LIDCs also met the MDG target for extreme poverty reduction. In contrast, 11 LIDCs witnessed a substantial deterioration of conditions. These include the Central African Republic, Comoros, Cote d'Ivoire, Eritrea, Guinea-Bissau, Haiti, Kiribati, Madagascar, Togo, Yemen, and Zimbabwe. In these fragile states, economic output either dramatically shrank or stayed close to zero from 2000 to 2013. Not surprisingly, these states, along with nine other LIDCs, are considered 'seriously off target' in meeting MDGs for poverty reduction (IMF 2014a: 12–17).

Since 2013, a significant drop in commodity prices has raised alarms in the IMF and the broader development community. The Fund projects that weak commodity prices will reduce by one percentage point growth rate in commodity exporters from 2015 to 2017. For LIDCs that primarily export energy, the drop in growth rates is estimated at over 2 % (IMF 2015c). The United Nations Conference on Trade and Development (UNCTAD) also reports that anemic and uneven global growth combined with drops in commodity prices reduced the average LIDC growth rate to 5.6 % in 2013, one point below the average growth

rate seen between 2000 and 2012 (UNCTAD 2014: 3). As of 2015, the prognosis for LIDCs is thus unclear. Despite strong growth rates from 2000 to 2012 in LIDCs and substantial progress toward meeting the MDGs, UNCTAD reports that

> Nearly 30 per cent of the people are undernourished, and the great majority are in vulnerable employment. On average, nearly a third of their people have no access to a clean water source, and nearly two thirds have no access to sanitation facilities. One in twelve children die before their fifth birthdays, and one in four of those who survive do not attend primary school. (UNCTAD 2014: 41)

1.4 Organization, Research Design, and Findings

Given the multiple causal factors involved in IMF LIDC reform, I am sympathetic to the growing number of international relations scholars open to the use of diverse theoretical frameworks in the study of international organizations (IOs) (Nielson et al. 2006; Sil and Katzenstein 2010; Clegg 2013). Specifically, I draw from 'mainstream' rationalist and constructivist theory, as well as Gramscian inspired historical structural analysis in this book. For the latter, I use a historical structural framework to examine how shifts in broad-based social forces tied to globalizing capitalism and global structural power impact and are interrelated with IMF LIDC reform. Rationalist inspired principal agent (PA) theory provides a framework to examine the relationship between the interests of various actors involved in IMF LIDC policy choices, and how shifting interests and subsequent coalitions impact change. Constructivist approaches offer a template to study how the internal micro-dynamics of the IMF's bureaucratic culture and belief systems influence LIDC reform.

Chapter 2 provides the institutional and historical context necessary for the study of post-Washington Consensus LIDC reform. The chapter first outlines the Fund's formal operations and LIDC programs. This is followed by an examination on the IMF's organizational culture. Evidence gathered from interviews and internal Fund survey data highlights that LIDC staff diverge from a broader institutional culture historically characterized by silo mentality and ideological conformity. This suggests that LIDC staff exhibit a greater willingness to engage with alternative ideas and policy positions than their colleagues in other departments in the

Country	Category	Country	Category
Afghanistan	CE, FS	Madagascar	FS
Bangladesh	FS	Malawi	CE ,FS
Benin	O	Mali	CE, FS
Bolivia	FM, CE	Mauritania	CE
Burkina Faso	CE	Moldova	O
Burundi	CE, FS	Mongolia	FM, CE
Bhutan	O	Mozambique	FM
Cambodia	O	Myanmar	FS
Cameroon	O	Nepal	O
Central African Rep.	FS	Nicaragua	O
Chad	FS	Niger	CE
Comoros	FS	Nigeria	FM
Congo, Dem. Rep.	CE, FS	Papua New Guinea	FM, CE
Congo, Rep.	FS	Rwanda	O
Cote d'Ivoire	FM, FS	Sao Tome and Principe	FS
Djibouti	FS	Senegal	FM
Ethiopia	O	Sierra Leone	CE, FS
Eritrea	CE, FS	Solomon Islands	CE, FS
Gambia, The	O	Somalia	FS
Ghana	FM	South Sudan	CE, FS
Guinea	CE, FS	Sudan	CE, FS
Guinea-Bissau	CE, FS	Tajikistan	O
Haiti	FS	Tanzania	FM
Honduras	O	Togo	FS
Kenya	FS	Uganda	FM
Kiribati	FS	Uzbekistan	CE
Kyrgyz Rep.	O	Vietnam	FM
Lao PR	O	Yemen. Rep	CE, FS
Lesotho	O	Zambia	FM, CE
Liberia	FS	Zimbabwe	CE, FS

FM=Frontier Markets FS=Fragile States

CE=Commodity Exporters O=Other

Fig. 1.2 Low income developing countries. (*Source:* IMF (2014a: 54))

Fund. As with any bureaucracy, there are multiple and sometimes conflicting tendencies within the IMF that should be recognized.

The second section of Chap. 2 includes a brief historical overview of the IMF's relationship with LIDCs from the creation of the institution in 1945 up to the post-Washington Consensus period. It highlights three trends. First, prior to the breakdown of the Bretton Woods system in the early 1970s, the IMF's role in poor states primarily concerned balance of payment correction. From the 1970s forward, IMF resources and the attention paid toward LIDCs has substantially increased. Fund 'mission creep' into areas of development also emerged in the 1970s. Along with a focus on balance of payment correction, IMF LIDC lending evolved to include structural conditionality requirements designed to reform government institutions and legal systems. The nature of structural conditionality moved radically in a liberal market direction in the 1980s and set the stage for post-Washington Consensus LIDC reform efforts.

Second, the IMF established—and continues to wield—its power in LIDCs. Formal surveillance of LIDC activities and conditionality requirements demonstrate that the IMF exerts what Michael Barnett and Raymond Duvall (2005) describe as direct 'compulsory' and indirect 'institutional' power in its relationship with its poorest member states. With regard to the former, the Fund's influence in LIDCs is rooted primarily in conditionality requirements tied to concessionary lending. The IMF has also evolved to perform an informal role as gatekeeper for LIDC's access to World Bank loans, other multilateral assistance, and private bank lending. In addition, agenda setting—through its conditional lending programs and TA—shapes what poor states and development economists consider legitimate policy positions. This ability to frame the relative appropriateness of policy choices is a key point of leverage for the IMF in its relationship with its poorest member states.

Third, a formula for dealing with balance of payment deficits emerged in the IMF in the 1960s. It argued that the best strategy for states to correct balance of payment deficits was to create short-term economic contraction through monetary and fiscal belt-tightening. Known as the 'Polak model', this framework shaped how the institution perceived economic problems in LIDCs and the general formula for corrective action (Polak 1997a; Clift and Tommilson 2011: 485–7). Balance of payment problems and broader poor economic performance were considered primarily the fault of deficit states, rather than an outcome caused by the behavior of states with balance of payment surplus or instability in global markets.

As developed further in Chaps. 4 and 5, a key aspect of the Polak model was challenged in the post-Washington Consensus period. Rather than focusing primarily on achieving a balance of payment surplus, an increase in balance of payment deficit may be necessary in the short and medium term in LIDCs to allow for poverty reduction and subsequent improvements in growth and development.

Chapter 3 first provides an overview of IMF literature focused on policy formation and reform. It then outlines rationalist, constructivist, and historical structural frameworks of IO change and develops how these different frameworks theoretically approach IMF LIDC reform. The majority of current scholarship focused on IOs draws primarily from rationalist and constructivist theory. Rationalist inspired PA models, while recognizing the constraints that powerful states impose on IOs, conceptualize IOs as entities independent of these states with the agency to strategically pursue their own interests. Applied to the focus of this book, when powerful states ('principals') share similar goals, and information asymmetry between states and Fund management and staff ('agents') is low, IMF policy is hypothesized to reflect principal preferences. If powerful states are the source of reform efforts or look to block policy change under these conditions, we should expect them to be successful. In the absence of these conditions, Fund management and staff are more likely to pursue an independent agenda, but will not generally enact or block reforms that would invite greater oversight and intervention from powerful states (Hawkins et al. 2006). PA theory also integrates the concept of delegation chains into its predictive models. Daniel Nielson and Michael Tierney (2003: 249–50) argue that IOs are most likely to respond to demands from their most proximate principals (states) rather than distal principals (voters and NGOs, for example).

The IO literature rooted in constructivism primarily draws from organizational sociology and organizational theory to explain institutional reform (Barnett and Finnemore 1999, 2004; Chwieroth 2008a; Momani 2005, 2007a, b, 2010; Vetterlein and Moschella 2014; Weaver 2008, 2010). While shifts in the international political and economic system are recognized as variables that impact IMF policy, it is ultimately the individuals and the internal bureaucratic dynamics of the institution that shape if and how external change and pressure produce reform. As with PA analysis, this framework also highlights that the IMF is not merely reactive to exogenous factors. Rather, the Fund has the agency to produce 'change from within' (Chwieroth 2008b, 2010, 2014). Endogenous factors that

help facilitate or block change include a shift in thinking among staff or management about particular macroeconomic of development ideas, the ability of 'norm entrepreneurs' to strategically push or undermine change, intra-bureaucratic turf wars, and the policy openings that can occur due to staff or managerial turnover.

Constructivist approaches also maintain that internal processes that resist or support reform are heavily influenced by notions of legitimacy (Seabrooke 2007, 2010). Fund policy change is more likely to occur when those in the economics profession, member states, and private market actors no longer grant legitimacy to particular economic ideas or development norms embedded in IMF policy (Moschella 2010: 17–34). Three triggers are recognized that can undermine a particular normative framework and increase the probability that reform will occur: (1) an acknowledgment that a particular policy does not work; (2) an external shock; and (3) mass condemnation. Constructivist analysis of IMF policy reform therefore focuses on how economic ideas and development norms that influence IMF staff are established and change (Park and Vetterlein 2010: 137–41). In both Chaps. 5 and 6, I highlight how five prominent schools of economics have impacted IMF staff and management thinking. These include Keynesianism, the neoclassical synthesis, monetarism, new classical economics, and New Keynesianism.

Along with rationalist and constructivist inspired theory, I draw also from historical structural analysis developed by Robert Cox and embraced by neo-Gramscian IPE scholars (Cox 1981, 1983, 1987; Gill 1993, 1995, 2008; Bieler and Morton 2004; Ryner 2002; Rupert 1990, 1995, 2000, 2005, 2007). A historical structural approach conceptualizes the world as constituted by human agents dialectically interrelated with time specific social structures that shape and are shaped by their action. Human nature and structures of human interaction thus are never fully static or characterized by essential, timeless qualities. As such, this approach rejects the notion that generalizable causal patterns can be teased out from a series of cases in one particular historical era and then used as a template to predict future outcomes. Explanations in this context instead focus on revealing the historical structures that produce regularities in one particular era and how and why historical structures and subsequent world orders change over time.

The unit of analysis in this framework consists of an identifiable constellation of mutually constituted and reinforcing social forces that make up a 'historical structure' reproduced in part by a 'historic bloc'.[10] A historical structure consists of three interrelated social forces—ideas/ideology,

material capabilities, and institutions—that set the broad context for political possibilities and agency within a particular world order. These social forces, in turn, interact dialectically at three interlocking levels of activity: social relations of production, state forms, and world order (Cox 1987: 395–8). By historic bloc, neo-Gramscian scholars refer to the complex of productive relations, classes, and ideology that underwrite and give cohesion to particular state forms and world orders (Rupert 1990: 443). Historical structures and historical blocs, while broadly cohesive, are never fully stable or uncontested. Contradictory tendencies and tensions within historical structures and historic blocs produce periodic crises that may serve as flashpoints of change.

Multilateral institutions, including the IMF, play a key role in the establishment of historical structures and reflect the power relations therein. Invoking Gramsci's conception of hegemony, historical structural analysis highlights the influential ideological role that the IMF plays in reinforcing social and world order. The belief system and the boundaries of what constitutes 'appropriate' policy choices within the Fund, for example, strengthens particular frameworks of 'common sense' that reinforces the status quo (Bøås and McNeill 2003: 3–5). For neo-Gramscians including Ian Taylor (2004: 124–6), the IMF and other international financial institutions (IFIs) also absorb radical challenges emanating from LIDCs through two points of cooption. First, the Fund historically has supported elites in LIDCs who agree with its worldview. Second, the IMF serves as a socializing agent that can integrate broad-based 'counterhegemonic' challenges from social movements through selective compromise and an amalgamation of demands.

Historical structural studies of the post-Washington Consensus IMF thus frame the institution's current behavior as related to four themes: (1) the shift from a world economy made up of linked national economies to a globalized economy characterized by the transnationalization of production and accumulation; (2) the dismantling of Keynesian welfare state forms in the global North and ISI state forms in the global South; (3) the rise of a 'globalist' historic bloc dominated by an emerging transnational capitalist class that has been unsuccessful in its attempt to build a hegemonic world order; and (4) new counter-tendencies that challenge this non-hegemonic order. For neo-Gramscians, the turmoil and crises of the late 1990s and early 2000s, and the global financial crisis of 2008, serve as the contextual foundation to explain post-Washington Consensus policy change. With regard to the IMF in particular, the HIPC and HIPC II

initiatives, the PRGF, and the post-2008 ECF, RCF, and SCF reforms are seen as components of a larger project initiated by 'progressive' elements within the global elite to secure a hegemonic world order. Through the use of 'inclusive neoliberal' practices, elites hope to build a more consensual form of capitalism and global governance in the twenty-first century (Robinson 2004; Rückert 2007, 2009, 2010).

Chapters 4, 5, and 6 focus on the four individual cases of IMF LIDC reform introduced above. Drawing from neo-Gramscian, rationalist, and constructivist frameworks, the study of each case involves engagement at three levels of analysis. At the macro historical structural level, the IMF reform in question is contextualized as an interrelated by-product of shifting forces and power relations within contemporary capitalist social structures. Middle-level analysis examines how the demands of external entities (states, NGOs, and the World Bank, for example), the pressure exerted by them, and economic ideas impact IMF LIDC reform. Micro-level analysis focuses on the actions and interactions of individuals within the IMF (staff, the managing director, executive directors). Methodologically, I therefore employ a combination of historical structural analysis, PA modeling, content analysis, and process tracing with each case. Evidence is drawn from a variety of sources. These include IMF staff and executive board documents housed at the Fund's archives, staff policy papers, LIDC lending arrangements, secondary sources, and a series of semi-structured interviews with IMF executive directors and LIDC staff housed in four departments (African; research; finance; and strategy, policy, and review) at IMF headquarters between 2011 and 2014.

The major findings derived from a comparative analysis of these cases are summarized in Chap. 7 as follows. First, two tiers of actors with different levels of influence shaped LIDC outcomes. 'Primary actors' included the managing director, powerful states, and IMF LIDC staff. 'Secondary actors' included the US Congress, LIDCs, NGOs, and the World Bank president. In all the cases examined, LIDC policy reform occurred only when a coalition formed between at least one primary and one secondary actor or at least two primary actors. As such, a primary actor, even the USA, 'can't go it alone' in reform efforts. Second, as predicted by PA models, increased division among powerful state principals provided openings for management and staff to initiate or resist LIDC policy change. This was most salient when staff and the managing director shared preferences. In future scenarios, increased division between powerful states on the executive board should enhance the leverage of management and increased division between powerful states on the executive

board staff to implement or sabotage reform efforts. Third, NGOs successfully influenced policy reform by applying direct pressure on the IMF and 'distally' through the lobbying of powerful states.

Fourth, evidence from interviews and policy documents points to two categories of ideas within the IMF that shaped post-Washington Consensus LIDC policy reform. The first consists of ideas that have remained fairly stable and uncontested since the creation of the IMF and set the broad boundaries for what is considered legitimate policy debate. These include the notion that transparent, market-based mechanisms most effectively allocate resource, support growth, and reduce poverty and inequality in LIDCs. An aversion to market distortive policies and support of free trade also falls within this non-debatable category. Within the boundaries of acceptable debate, IMF staff has been influenced by a diversity of economic ideas related to two distinct policy areas where the Fund is actively involved: (1) monetary and fiscal policy to stabilize and correct short-term balance of payment disequilibria; and (2) structural reform that improves economic efficiency and stimulates growth and development.

A highly stable framework that shaped monetary and fiscal policy advice and response (known as the 'New Consensus') emerged in the early 1980s and was not significantly challenged until the 2008 crisis. The New Consensus—influenced primarily by monetarism, new classical economics, and New Keynesianism—argued against 'activist' countercyclical monetary and fiscal intervention during recessionary periods. The 2008 crisis delegitimized the New Consensus among a critical mass of development economists and strategically situated individuals embedded in the IMF. This ushered in a new framework of economic ideas supportive of more traditional Keynesian inspired macroeconomic policy and played a role in the replacement of the PRGF with the ECF, RCF, and SCF in 2010. This suggests that IMF staff and management are not immune to external social pressure and critique. Rather, they seek legitimacy from outside peers and can reach a 'tipping point' that shifts their views on appropriate policy response. When this occurs, there is a greater chance that formal reform follows. Rising internal and external critiques of the Washington Consensus throughout the 1990s, and the Asian crisis, also recalibrated how IMF staff thought about LIDC policy. Here, a rethinking of the Polak model and an emphasis on poverty reduction helped catalyze the replacement of the ESAF with the PRGF and the subsequent introduction of PRSPs.

The Asian crisis and the 2008 crisis, however, did not radically challenge more intractable ideas deeply embedded in institutional 'common

sense'. Despite the turmoil of the late 1990s and 2008, confidence in free markets and an aversion to large-scale and coordinated redistribution remains firmly entrenched in IMF thinking. As of 2015, LIDCs are advised to avoid protectionism, over or undervalued exchange rates, subsidies, and large-scale entitlement programs. As introduced above, however, the recent focus on inequality, calls for 'inclusive growth', and support of the SDGs could be a signal that a deeply held mistrust of market distortion may be challenged in the near future.

The fifth major finding also lends support to neo-Gramscian explanations of IMF LIDC reform. Namely, in order to facilitate broad-based and long-term support of globalization of capitalism and the power structures therein, global elites and powerful institutions must respond to the growing number of crises and contradictions that the current system produces. Along with policy choices that address the destabilizing effects of severe poverty and inequality, a key component of building broad-based support for the global status quo involves a rethinking of *how* the interface between elites and subaltern elements occurs. Rather than an overtly 'top down' relationship as seen in the Washington Consensus era, for example, a more cooperative arrangement is necessary in order to move from what Stephen Gill (2008) describes as the 'politics of supremacy' toward a hegemonic and more stable model of global capitalism and global governance.

Evidence derived from interviews with IMF staff and executive directors, internal Fund documents, and secondary sources lends initial support to these hypotheses. IMF policy, over the past decade, has become more sensitive to concerns of weak economic growth, poverty, and increased inequality in LIDCs. The interface between the Fund and LIDCs also has changed in the post-Washington Consensus period. The rollout of the HIPC, HIPC II, and PRGF initiatives in the late 1990s, for example, was underwritten in part by two internal goals articulated by the Fund's LIDC staff and management. First, there was a concentrated effort to encourage multiple civil society stakeholders in LIDCs to support IMF reform efforts. Second, the IMF staff highlighted a need to engage in a more consensual decision-making process with LIDC stakeholders. Fallout from the 2008 crisis strengthened these trends. This was expressed most concretely in the elimination of structural performance criteria in all Fund lending arrangements in 2009. This has given LIDCs greater flexibility and control over domestic reform efforts. IMF staff and executive directors also highlight several high profile LIDC events including the 2009 Tanzania *Changes* conference as key points where the IMF reframed its relationship with LIDCs as an 'equal partner'.

Chapter 7 then assesses the potential upsides and drawbacks of the research position used in this book that is open to use of rationalist, constructivist, and historical structural frameworks focused on IMF change. It opens this discussion by first affirming that each theoretical framework presents a reasonable causal story when explaining contemporary IMF policy reform. For example, evidence suggests that policy change is impacted by the heterogeneity of powerful state preferences, shifts in how particular economic ideas gain or lose legitimacy among IMF staff, and broader tensions in the current historical structure of globalizing capitalism. If each theoretical framework presents a reasonable causal story on its own terms, does it therefore make sense to study the phenomenon of multilateral institutional change through use of a diverse analytical arsenal? Such an approach will not produce one correct answer and suffers at some level from the use of multiple ontological and epistemological platforms. However, I maintain that the complexity of the IMF and the processes of change within it merit space for mainstream and critical approaches. Future studies of the IMF and other multilateral institutions should explore more fully how diverse paths of inquiry can be effectively used to explain and shape policy reform. The book concludes with a brief overview of developments in IMF LIDC dynamics concerning the recently adopted SDGs and how these serve as opportunities for the next stage of post-Washington Consensus reform.

Notes

1. Data compiled from the 2005 and 2014 IMF annual reports. For the 2005 Annual Report, see IMF (2005) *Annual Report of the Executive Board for the Financial Year Ended April 30, 2005*, Appendix II, page 12, http://www.imf.org/external/pubs/ft/ar/2005/eng/index.htm, date accessed 11 June 2015. For the 2014 Annual Report, see IMF (2014) *Annual Report of the Executive Board for the Financial Year Ended April 30, 2014*, Appendix II, page 1, http://www.imf.org/external/pubs/ft/ar/2014/eng/index.htm, date accessed 11 June 2015.
2. At the 2009 G-20 summit, member states requested that the IMF coordinate the so-called Mutual Assessment Process (MAP). The MAP is designed to 'identify objectives for the global economy, the policies needed to reach them, and the progress toward meeting these shared objectives'. Since 2009, the Fund has presented an annual MAP report at the G-20 meetings. See IMF Official Website, IMF Factsheet: The G-20 Mutual Assessment

Process (MAP), http://www.imf.org/external/np/exr/facts/g20map.htm, date accessed 7 October 2014.
3. Prior to 2014, the Fund used 'low income countries' to describe its poorest states. In 2014, the *World Economic Outlook* adopted the term 'low income developing countries'. The two are currently used interchangeably within the IMF. See IMF Official Website, Proposed New Grouping in WEO Country Classifications: Low Income Developing Countries, imf.org/external/np/pp/eng/2014/05=60314.pdf, date accessed 2 January 2015.
4. For an overview of LIDC programs at the IMF, and how these have moved to the 'front and center' in the IMF's agenda, see the recently launched Fund website focused on its poorest member states at http://www.imf.org/external/np/exr/key/lic.htm
5. This project thus consciously selects on the dependent variable the dependent variable (LIDC policy change). As outlined by George and Bennett (2005: 23–4), doing so is appropriate in early stages of research focused on identifying potential variables and mechanisms that impact the dependent variable in question: 'Cases selected on the dependent variable … can help identify which variables are not necessary or sufficient conditions for the selected outcome. In addition, in the early stages of a research program, selection on the dependent variable can serve the heuristic purpose of identifying the potential causal paths and variables leading to the dependent variable of interest. Later, the resulting causal model can be tested against cases in which there is variation in the dependent variable'.
6. The success of these efforts led to further calls for debt reduction. In 2005, the G-8 proposed that the IMF, World Bank, and African Development Fund cancel 100 % of multilateral debt claims of states that had reached HIPC II completion points. Under the Multilateral Debt Relief Initiative (MDRI), the Fund formed two trusts (MDRI-I and MDRI-II) to pay off the full stock of debt owed to the IMF for loans disbursed prior to 2005.
7. John Williamson, an economist at the Peterson Institute in Washington, DC, coined the term 'Washington Consensus' in 1989. In its original context, the Washington Consensus was a description of what Williamson saw as the broad-based consensus among 'the political Washington of Congress and senior members of the administration and the technocratic Washington of the international financial institutions, the economic agencies of the U.S. government, the Federal Reserve Board, and the think tanks around appropriate reforms needed in Latin American economies at the time'. Williamson argues that the popular use of the term that emerged in the 1990s equated it with market fundamentalism and misrepresented his original meaning. He maintains, for example, that his conception of the Washington Consensus did not support carte blanche deregulation and privatization. Williamson (2008: 14–30) also notes that he was staunchly opposed to capital account liberalization pushed by the IMF until the late 1990s.

8. The term 'post-Washington Consensus' was first used by Joseph Stiglitz in a 1998 speech outlining his critique of the 'market fundamentalism' of the Washington Consensus. At the time, Stiglitz was vice president and chief economist of the World Bank. See Stiglitz (1998).
9. *Finance and Development* is the quarterly publication of the IMF and is self-described as 'publishing analysis of issues related to the international financial system, monetary policy, economic development, poverty reduction, and other world economic issues'.
10. As outlined by Rupert (2000: 42), social relations, while not empirically 'observable' as things, have structures that can be explained through an analysis of 'identifiable constellations of dominant social forces' in prevailing historical structures.

Bibliography

Barnett, M., and R. Duvall. 2005. Power in global governance. In *Power in global governance*, ed. M. Barnett and R. Duvall, 1–22. Cambridge: Cambridge University Press.

Barnett, M., and M. Finnemore. 1999. The politics, power, and pathologies of international organizations. *International Organization* 53(4): 699–732.

Barnett, M., and M. Finnemore. 2004. *Rules for the world: International organizations in global politics*. Ithaca: Cornell University Press.

Berg, A., and J. Ostry. 2011. Equality and efficiency: Is there a trade-off between the two or do they go hand in hand ? *Finance and Development* 48(3): 12–15.

Best, J. 2007. Legitimacy dilemmas: The IMF's pursuit of country ownership. *Third World Quarterly* 28(3): 469–488.

Best, J. 2014. *Governing failure: Provisional expertise and the transformation of global development finance*. Cambridge: Cambridge University Press.

Bieler, A., and A. Morton. 2004. A critical theory route to Hegemony, world order, and historic change: Neo-Gramscian perspectives in international relations. *Capital and Class* 82: 85–113.

Bird, G. 1995. *IMF lending in developing countries: Issues and evidence*. London: Routledge.

Blanchard, O. 2008. *The state of macro*. Working paper 14259, NBER working paper series, August 2008. http://www.nber.org/papers/w14259.pdf?new_window=1. Date Accessed 12 Apr 2012.

Bøås, M., and D. McNeill. 2003. *Multilateral institutions: A critical introduction*. London: Pluto Press.

Boughton, J., and D. Lombardi. 2009. The role of the IMF in low-income countries. In *Finance, development, and the IMF*, ed. J. Boughton and D. Lombardi, 3–11. Oxford: Oxford University Press.

Broome, A. 2009. When do NGOs matter? Activist organizations as a source of change in the international debt regime. *Global Society* 23(1): 59–78.

Chwieroth, J. 2008a. Organizational change 'from within': Exploring the World Bank's early lending practices. *Review of International Political Economy* 15(4): 481–505.

Chwieroth, J. 2008b. Normative change; from within: The International Monetary Fund's approach to capital account liberalization. *International Studies Quarterly* 52: 129–158.

Chwieroth, J. 2010. *Capital ideas: The IMF and the rise of financial liberalization.* Princeton: Princeton University Press.

Chwieroth, J. 2014. Controlling capital. The International Monetary Fund and transformative incremental change from within international organizations. *New Political Economy* 19(3): 445–469.

Clegg, L. 2012a. Post-crisis reform at the IMF: Learning to be (seen to be) a long-term development partner. *Global Society* 26(1): 61–81.

Clegg, L. 2012b. Global governance behind closed doors: The IMF boardroom, the enhanced structural adjustment facility, and the intersection of material power and norm change in global economic governance. *Review of International Organizations* 7(3): 285–308.

Clegg, L. 2013. *Controlling the World Bank and the IMF: Shareholders, stakeholders, and the politics of concessional lending.* Basingstoke: Palgrave Macmillan.

Clegg, L. 2014. Social spending targets in IMF concessional lending: US domestic politics and the foundations of rapid operational change. *Review of International Political Economy* 21(3): 735–763.

Clift, B., and J. Tommilson. 2011. When rules started to rule: The IMF, neo-liberal economic ideas, and economic policy change in Britain. *Review of International Political Economy* 18(1): 477–500.

Cox, R. 1981. Social forces, states, and world orders: Beyond international relations theory. *Millennium: Journal of International Studies* 10(3): 126–155.

Cox, R. 1983. Gramsci, hegemony, and international relations: An essay in methods. *Millennium: Journal of International Studies* 12(2): 162–175.

Cox, R. 1987. *Production, power, and world order: Social forces in the making of history.* New York: Columbia University Press.

Dreher, A. 2006. IMF and economic growth: The effects of programs, loans, and compliance with conditionality. *World Development* 34(5): 769–788.

George, A., and A. Bennett. 2005. *Case study and theoretical development in the social sciences.* Cambridge, MA: MIT Press.

Gill, S. 1993. Epistemology, ontology, and the 'Italian school'. In *Gramsci, historical materialism and international relations*, ed. S. Gill, 21–48. Cambridge: Cambridge University Press.

Gill, S. 1995. Globalization, market civilization, and disciplinary neo-liberalism. *Millennium: Journal of International Studies* 24(3): 411–431.

Gill, S. 2008. *Power and resistance in the new world order.* London: Palgrave Macmillan.

Hawkins, D., D. Lake, D. Nielson, and M. Tierney. 2006. Delegation under anarchy: States, international organizations, and principal-agent theory. In *Delegation and agency in international organizations*, ed. D. Hawkins, D. Lake, D. Nielson, and M. Tierney, 3–38. Cambridge: Cambridge University Press.

Hirschman, A. 1958. *The strategy of economic development*. New Haven: Yale University Press.

IMF. 2005. *Monetary and fiscal policy design issues in low income countries*. http://www.imf.org/external/np/pp/eng/2005/080805m.pdf. Accessed 1 June 2012.

IMF. 2013a. *Jobs and growth: Analytical and operational considerations for the fund*. https://www.imf.org/external/np/pp/eng/2013/031413.pdf. Accessed 6 Oct 2014.

IMF. 2014a. *Macroeconomic development in low income developing counties*. https://www.imf.org/external/np/pp/eng/2014/091814.pdf. Accessed 12 Jan 2015.

IMF. 2014b. *Redistribution, inequality and growth* https://www.imf.org/external/pubs/ft/sdn/2014/sdn1402.pdf. Accessed 14 Jan 2015.

IMF. 2014c. *Fiscal policy and income inequality*. https://www.imf.org/external/np/pp/eng/2014/012314.pdf. Accessed 14 Jan 2015.

IMF. 2015c. *World economic outlook analysis: Commodity exporters facing the difficult aftermath of the boom*. IMF survey magazine, 28 September, 2015. http://www.imf.org/external/pubs/ft/survey/so/2015/RES092815A.htm. Accessed 4 Oct 2015.

Lagarde, C. 2014. *A new multilateralism for the 21st century: The Richard Dimbleby lecture*, 3 February 2014. https://www.imf.org/external/np/speeches/2014/020314.htm. Accessed 5 Apr 2015.

Lavelle, K. 2011. *Legislating international organization: The US congress, the IMF, and the World Bank*. Oxford: Oxford University Press.

Momani, B. 2005. Recruiting and diversifying IMF technocrats. *Global Society* 19(2): 167–187.

Momani, B. 2007a. Limits on streamlining fund conditionality: The International Monetary Fund's organizational culture. *Journal of International Relations and Development* 8(2): 142–163.

Momani, B. 2007b. IMF staff: Missing link in fund reform proposals. *Review of International Organizations* 2(1): 39–57.

Momani, B. 2010. Internal or external norm champions: The IMF and multilateral debt relief. In *Owning development: Creating policy norms in the IMF and World Bank*, ed. S. Park and A. Vetterlein, 29–47. Cambridge: Cambridge University Press.

Moschella, M. 2010. *Governing risk: The IMF and global financial crises*. London: Palgrave MacMillan.

Nielson, D., and M. Tierney. 2003. Delegation to international organizations: Agency theory and World Bank environmental reform. *International Organization* 57(2): 241–276.
Nielson, D., M. Tierney, and C. Weaver. 2006. Bridging the rationalist-constructivist divide: Re-engineering the culture of the World Bank. *Journal of International Relations and Development* 9(2): 107–139.
Park, S., and A. Vetterlein. 2010a. Owning development: Creating policy norms in the IMF and World Bank. In *Owning development: Creating policy norms in the IMF and World Bank,* eds. Park, S., and A. Vetterlein, 3–26. Cambridge: Cambridge University Press, 2010.
Polak, J. 1997a. The IMF monetary model: A hearty perennial. *Finance and Development* 34(4): 16–18.
Prebisch, R. 1950. *The economic development of Latin America and its principal problems.* New York: United Nations.
Robinson, W. 2004. *A theory of global capitalism: Production, class, and state in a transnational world*. Baltimore: Johns Hopkins Press.
Rodrik, D. 2006. Goodbye Washington consensus, hello Washington confusion? A review of the World Bank's economic growth in the 1990s: Learning from a decade of reform. *Journal of Economic Literature* 44(4): 973–987.
Rückert, A. 2007. Producing neoliberal hegemony? A neo-Gramscian analysis of the poverty reduction strategy paper (PRSP) in Nicaragua. *Studies in Political Economy* 79: 91–118.
Rückert, A. 2009. A decade of poverty reduction strategies in Latin America: Empowering or disciplining the poor? *Labour, Capital, and Society* 42(1&2): 56–81.
Rückert, A. 2010. The forgotten dimension of social reproduction: The World Bank and the poverty reduction paradigm. *Review of International Political Economy* 17(5): 816–839.
Rupert, M. 1990. Producing hegemony: State/society relations and the politics of productivity in the United States. *International Studies Quarterly* 4(34): 427–456.
Rupert, M. 1995. *Producing hegemony: The politics of mass production and American global power*. Cambridge: Cambridge University Press.
Rupert, M. 2000. *Ideologies of globalization: Contending visions of a new world order*. London: Routledge.
Rupert, M. 2005. Class power and the politics of global governance. In *Power in global governance*, ed. M. Barnett and R. Duvall, 200–214. Cambridge: Cambridge University Press.
Rupert, M. 2007. Marxism and critical theory. In *International relations theories: Discipline and diversity*, ed. T. Dunne, M. Kurki, and S. Smith, 148–165. Oxford: Oxford University Press.
Ryner, M. 2002. *Capitalist restructuring, globalization and the third way: Lessons from the Swedish model.* London: Routledge.

Seabrooke, L. 2007. Legitimacy gaps in the world economy: Explaining the sources of the IMF's legitimacy crisis. *International Politics* 44: 250–268.

Seabrooke, L. 2010. Bitter pills to swallow: Legitimacy gaps and social recognition of the IMF tax policy norm in East Asia. In *Owning development*, ed. S. Park and A. Vetterlein, 137–149. Cambridge: Cambridge University Press.

Sil, R., and P. Katzenstein. 2010. *Beyond paradigms: Analytic eclecticism in the study of world politics*. London: Palgrave Macmillan.

Singer, H.W. 1950. The distribution of gains between investing and borrowing countries. *American Economic Review* 40(2): 473–485.

Stiglizt, J. 1998. *More instruments and broader goals: Moving toward the post Washington consensus*. The WIDER Annual Lecture, Helsinki 7 January 1998.

Stiglitz, J. 2008. Is there a post Washington consensus consensus? In *The Washington consensus reconsidered: Towards a new global governance*, ed. N. Serra and J. Stiglitz, 31–56. Oxford: Oxford University Press.

Taylor, I. 2004. Hegemony, neoliberal "good governance" and the International Monetary Fund: A Gramscian perspective. In *Global institutions & development: Framing the world*, ed. M. Bøås and D. McNeill, 124–136. London: Routledge.

UNCTAD. 2014. *The least developed country report 2014 growth with structural transformation: A post 2015 agenda*. http://unctad.org/en/PublicationsLibrary/ldc2014_en.pdf. Accessed 4 Oct 2015.

Vetterlein, A. 2010. Lacking ownership: The IMF and its engagement with social development as a policy norm. In *Owning development: Creating policy norms in the IMF and World Bank*, ed. S. Park and A. Vetterlein, 93–112. Cambridge: Cambridge University Press.

Vetterlein, A., and M. Moschella. 2014. International organizations and organizational fields: Explaining policy changes in the IMF. *European Political Science Review* 6(1): 143–165.

Vreeland, J. 2007. *The International Monetary Fund: Politics of conditional lending*. New York: Routledge.

Weaver, C. 2008. *Hypocrisy trap: The World Bank and the poverty of reform*. Princeton: Princeton University Press.

Weaver, C. 2010. The meaning of development: Constructing the World Bank's good governance agenda. In *Constructing the international economy*, ed. R. Adedal, M. Blythe, and C. Parsons, 47–67. Ithaca: Cornell University Press.

Williamson, J. 2008. A short history of the Washington consensus. In *The Washington consensus reconsidered: Towards a new global governance*, ed. N. Serra and J. Stiglitz, 14–30. Oxford: Oxford University Press.

Woods, N. 2006. *The globalizers: The IMF, the World Bank, and their borrowers*. Ithaca: Cornell University Press.

CHAPTER 2

The IMF and LIDCs

Effective analysis of post-Washington Consensus IMF LIDC policy reform requires institutional literacy in three areas: the IMF's formal operations; the informal dynamics of its operational culture, especially LIDC staff; and the historical role of the IMF in LIDCs. This chapter first summarizes the Fund's formal operations and institutional structure and provides an overview of the IMF and its contemporary role in member surveillance, technical support, and lending. This is followed by a discussion on the informal characteristics of the institution's operational culture. Evidence gathered from interviews and internal Fund survey data highlights that LIDC staff diverge from a broader culture within the IMF, characterized by silo mentality and ideological conformity. This suggests that LIDC staff exhibit a greater willingness to engage with alternative ideas and policy positions compared to their colleagues in other departments or focus areas in the Fund. However, LIDC staff exhibit traits fairly consistent with two other primary characteristics found in the IMF's institutional culture. The processing of LIDC policy decisions, for example, operates through a highly structured hierarchical bureaucracy. LIDC staff also see themselves as practical technocrats focused on 'what works' and are generally dismissive of those who see them or their policy choices as ideologically driven.

Chapter 2 then provides an overview of the evolution of the Fund's relationship with LIDCs from its birth nearly seven decades ago to the end of the Washington Consensus period. Several trends that provide context for the current post-Washington Consensus era are highlighted.

© The Editor(s) (if applicable) and The Author(s) 2016

M. Hibben, *Poor States, Power and the Politics of IMF Reform*, International Political Economy Series,
DOI 10.1057/978-1-137-57750-4_2

While there was little involvement on the part of the IMF in the global South in the first few decades of its history, a policy framework to deal with member states in balance of payment difficulties was fully developed by the time the IMF began to increase its LIDC footprint in the 1970s. Most prominent in this respect was the 'Polak Model' that argued that short-term demand compression offered the best solution to deal with balance of payment deficits. Second, the IMF's focus on LIDCs both deepened and ideologically moved rightward in the 1980s. While previously the focus had primarily been on monetary and fiscal concerns, there was now a shift in policy toward liberal market structural adjustment designed to dismantle policies of state-centered ISI. And third, the IMF's nearly five decade presence in LIDCs demonstrates that the institution wields substantive leverage in its relations with the world's poorest states. This includes direct forms of power tied to concessional lending requirements and indirect processes that influence the perceived 'appropriateness' of macroeconomic and development policy.

2.1 Mandate and Quota System

The IMF came into force on 27 December 1945. Article I includes the following 'purposes':

> (i) To promote international monetary cooperation…(ii) To facilitate the expansion and balanced growth of international trade…(iii) To promote exchange stability…and to avoid competitive exchange depreciation…(iv) To assist in the establishment of a multilateral system of payments in respect to current transactions…and…elimination of foreign exchange restrictions which hamper the growth of world trade. (v) To give confidence to members by making the general resources of the Fund temporarily available to them…to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity…(vi)…to shorten the duration and lessen the degree of balance-of-payment disequilibria.[1]

At the organizational level, the Fund is best described as an international credit union made up of member states. Upon initial acceptance to the IMF, members are assigned a quota (currency contribution). Quotas are determined by the relative size of the state's economy and its engagement with international trade. The quota shapes two key aspects of the

relationship between members and the IMF.[2] First, the member state's quota share determines how much it must contribute in full when initially joining the institution. Once the overall currency contribution is established, an initial 25 % of the quota must be paid in hard currency.[3] Referred to as the 'reserve tranche' or 'first tranche', this resource pool can be accessed by a member state without any conditionality requirements. The remaining three quarters ('upper credit tranches') are generally only granted with conditionality. Second, the quota amount sets the limit on how much a member can borrow from the Fund. For non-concessionary loans, this currently stands at 200 % of a member's quota annually and 600 % cumulatively.[4] In addition, the quota size determines the voting power of the member. As of 2015, the USA had the largest quota and percentage of votes (16.74 %) at the Fund and held unilateral veto power over significant policy reform.[5] This was followed by Japan (6.23 %), Germany (5.81 %), France and the UK (both 4.29 %), China (3.81 %), Saudi Arabia (2.80 %), and Russia (2.39 %).

Quotas were initially fixed in US dollar equivalents and were replaced with Special Drawing Rights (SDRs) in 1969. Today, the value of the SDR is determined by a basket of four currencies (euro, yen, pound sterling, and US dollar), and one unit currently hovers around the equivalent value of US$1.40.[6] A member state can use SDRs to obtain hard currency through two mechanisms. It can voluntarily exchange SDRs for usable currency with another member, or the IMF can direct states with balance of payment surpluses to buy SDRs from those with payment deficits. Quota shares are reviewed approximately every 5 years. Any change must be approved by 85 % majority of the total voting power in the Fund. The 14th review, completed in November 2010, remains stalled with only 77.25 % of the total executive board voting power in support. If enacted, it will double overall quota requirements to a total of approximately US$756 billion. According to the IMF, this review was a major victory for developing states in several areas. Quotas for LIDCs were preserved, while 6 % of quotas were shifted to emerging market economies including China, Russia, Brazil, and India.

Along with quota subscriptions, two additional programs are implemented on an ad hoc basis to supplement Fund resources for lending purposes. The General Arrangements to Borrow (GAB), established in 1962, allows the IMF to borrow up to US$27 billion from 11 industrial countries on a short-term basis. The New Arrangements to Borrow

(NAB) serves as a source of funds to supplement quota resources, particularly in times of financial crisis. Initiated after the Asian crisis, the NAB currently involves 38 member states who have committed US$520 billion in resources to the arrangement. Proposals to access NAB resources must be approved by 85 % of both, the states who have contributed to the fund and the executive board. Since the 2008 crisis, the NAB has been activated six times.[7]

2.2 Organizational Structure

Voting formally takes place at two levels in the Fund. The board of governors is comprised of finance ministers or central bank heads of each of the 188 member states. The board of governors retains the right to vote on policies including quota increases, SDR allocations, member admittance and withdrawal, and amendments to Fund Articles of Agreements and By-Laws.[8] This body meets twice a year, at the fall annual meeting and spring meeting, and the majority of its business is allocated to the international monetary and financial committee (IMFC) (previously the interim committee). The IMFC 'monitors developments in global liquidity and the transfer of resources to developing countries; considers proposals by the executive board to amend the Articles of Agreement; and deals with events that may disrupt the global monetary and financial system'.[9] The development committee, made up of IMF and World Bank members, is tasked with advising the board of governors of both institutions on economic development issues in emerging and low-income developing states.

The day-to-day operations of the IMF are delegated to a 24-member executive board whose executive directors are elected or appointed to 2-year terms. Eight appointed executive directors currently represent each of the countries with the largest quotas (the USA, Germany, France, UK, Japan, China, Russia, and Saudi Arabia). The other 180 members are represented by the remaining 16 executive directors. The managing director is appointed by the executive board, serves a 5-year term, and by convention is European. Christine Lagarde (see Fig. 2.1) serves as the current managing director and is assisted by the first deputy manager (by convention an American) and two deputy managing directors. The Independent Evaluation Office (IEO), founded in 2001, sits outside the IMF and conducts ongoing reviews of Fund policies and programs.[10]

The Fund staff of approximately 2600 individuals is distributed across eight functional and five area departments. Functional departments

Managing Director	Tenure
Camille Gutt	1946-1951
Ivar Rooth	1951-1956
Per Jocobsson	1956-1963
Pierre-Paul Schweitzer	1963-1973
H. Johannes Witteveen	1973-1978
Jacques de Larosière	1978-1987
Michel Camdessus	1987-2000
Horst Köhler	2000-2004
Rodgiro de Rato	2004-2007
Dominique Strauss-Kahn	2007-2011
Christine Lagarde	2011-present

Fig. 2.1 IMF managing directors: 1946–2015

include: finance; fiscal affairs; IMF Institute; legal; monetary and capital markets; strategy, policy, and review; research; and statistics. Area departments include: African; Asia and Pacific; European; Middle East and Central Asia; and Western Hemisphere. Staff members across all departments are formally involved in three primary activities for member states: monitoring economies, providing technical assistance, and designing short-term loan packages for states with balance of payments difficulties.

Under Article IV of the Articles of Agreement, members agree to collaborate with the IMF and one another to promote international economic stability. The Fund is charged with monitoring both individual member economies ('bilateral surveillance') and reporting on global and regional economic trends ('multilateral surveillance'). Bilateral surveillance is accomplished through Article IV consultations. IMF staff travel to individual member states to evaluate monetary, fiscal, financial, and exchange rate policies and meet with various stakeholders to discuss future policy direction. Upon return to the Fund, a report is filed with the executive board and then forwarded to the member state in question. Multilateral surveillance efforts include the publication of two semiannual reports—the *World Economic Outlook* (*WEO*) and the *Global Financial Stability Report* (*GFSR*).

Technical assistance is primarily designed to cater to states in the global South. It includes staff support for creating and managing macroeconomic policy, monetary and fiscal policy design and implementation, banking

systems, taxation reform, financial systems, fiscal management, and foreign exchange policy. Delivery of assistance takes various forms. Staff missions are sent to member states for short-term analysis and advice or may also remain for longer in-house placements. Training programs are also offered at the IMF Institute in Washington, DC, and seven new regional technical assistance centers throughout the global South.[11] Funding for technical assistance makes up approximately one-fifth of the Fund's operating budget, with two-thirds of these resources provided by external sources.[12]

2.3 Lending Facilities, FSAPs, and the PSI

As of 2015, IMF loan instruments ('facilities') are divided into three main categories. Non-concessional loans (Fig. 2.2) include the Stand-By Arrangement (SBA), the Flexible Credit Line (FCL), the Extended Fund Facility (EFF), and the Precautionary Credit Line (PCL). The interest rate charged on non-concessional loans ('rate of charge') is based on the SDR interest rate and is adjusted on a weekly basis. Non-concessional lending arrangements with member states are facilitated through a Letter of Intent (LOI). Through the LOI process, Fund staff meet with country authorities and draft what the government plans to pursue in return for financial support. The LOI is then presented to the executive board for approval.

Although the executive board is formally empowered to reject or veto lending arrangements, staff are granted considerable autonomy setting up and monitoring member agreements. Staff assessment determines if a member has abided by conditions and qualifies for further lending. Staff can also require member states to implement 'prior actions' or 'preconditions' before forwarding LOIs to the board. Directors on the executive board also do not have access to confidential documents between staff and member governments during the LOI process. As such, executive board influence on LOIs is mostly informal, while formal control is limited to minor changes in staff proposals.

Concessional loans designed for LIDCs include the ECF, RCF, and SCF. All concessional loans have below market interest rates and reflect policy commitments developed through a poverty reduction strategy. In 2005, the IMF created the PSI. The PSI is a non-financial 'signaling' instrument available for LIDCs. As described by the IMF, the PSI 'helps countries design effective economic programs that deliver clear signals to donors, multilateral development banks, and markets of the

Non-concessional IMF Lending Facilities

IMF Loan Instruments	Introduced	Description
Stand-By Arrangement	1952	-1-2 year loan/ Repayment due 3-5 years -Designed to address short-term balance of payments deficits -Bulk of IMF conditional lending
Extended Fund Facility	1974	-3 year loan/ Repayment due 4-10 years -Designed to address longer –term balance of payments problems -Often focuses on deeper structural reform
Flexible Credit Line	2009	-1-2 years/Repayment due 3-5 years -Credit for crisis prevention for states with 'strong fundamentals' -No conditionality requirements
Precautionary Credit Line	2009	-1-2 years/ Repayment due 3-5 years -Renewable line of credit for crisis prevention for states with 'sound fundamentals' but facing 'moderate vulnerabilities' -Commitment to address vulnerabilities identified in qualification process

Concessional IMF Lending Facilities

IMF Loan Instruments	Introduced	Description
Extended Credit Facility	2010	-Succeeds Poverty Reduction and Growth Facility -Main tool for medium-term support for LIDCs -Zero interest rate/5.5 year grace period/10 year final maturity
Standby Credit Facility	2010	-Short-term support for LIDCs -Zero interest rate/4 year grace period/ 8 year final maturity
Rapid Credit Facility	2010	-Rapid, limited conditional support for LIDCs -Zero interest rate/5.5 year grace period/ 10 year final maturity

Emergency Resources

IMF Loan Instruments	Introduced	Description
Post-Catastrophic Debt Relief Trust	2010	-Assistance for LICs who have suffered a natural disaster -May involve debt flow relief or debt stock cancellation
Emergency Natural Disaster Assistance	1962	-3-5 year non-conditional assistance for natural disaster -Standard interest rate/ Up to 50 percent of quota
Emergency Post-Conflict Assistance	1995	-3-5 year non-conditional assistance for post-conflict -Standard interest rate/ Up to 50 percent of quota

Fig. 2.2 IMF lending facilities

Fund's endorsement of the strength of a member's policies'.[13] Emergency resources for poor states that qualify for concessional lending are also available via the Post-Catastrophic Debt Relief Trust (PCDR). Non-LIDCs are eligible for crisis assistance through either the Emergency Natural Disaster Assistance (ENDA) or Emergency Post-Conflict Assistance (EPCA) programs.

Since the mid-1990s, the IMF also has increased initiatives focused on global financial stability. Along with promoting 'codes of best practice' concerning fiscal and monetary policy, the Fund has developed and lobbied for states to abide by a Special Data Dissemination Standard (SDDS) and General Data Dissemination Standard (GDDS). Both programs seek to standardize government production and reporting of economic and financial data. Following the 2008 crisis, the IMF also expanded its work in the Financial Sector Assessment Program (FSAP). Created following the Asian crisis, the FSAP was originally a voluntary program that assessed a member state's financial sector. After 2008, 29 member states with 'systemically important financial sectors' are now required to undergo a mandatory FSAP every 5 years.[14]

2.4 Operational Culture

The current IO literature recognizes four major components of organizational culture. 'Routines' include the standard operating procedures that over time produce patterns of behavior in an institution. 'Ideology' is defined as the underlying belief system that sets the agenda and parameters of policy choices. 'Norms' include collectively shared principles and values. Catherine Weaver (2008: 37) also maintains that an institution develops its own internal language 'which enables the organization to create a common and efficient means of communicating the shared meaning of ideology and to consistently identify, categorize, and apply standard solutions to tasks'.

I maintain that the relationship between the organizational culture of the Fund and its impact on policy reform is most effectively analyzed if organizational culture is separated into two components: operational culture and normative culture. The former includes the 'routines' as defined above. Standard operating procedures and the reproduction of 'how things are done' produces specific patterns of behavior that shape how calls for reform move through the institution, irrespective of the content or ideological slant of the policy reform in question. The latter, normative culture, instead consists of the predominant economic ideas, development norms, and the language found in the organization. Evidence from this book points to procedural and ideological patterns among LIDC policymakers that are at some level distinct from the broader operational and normative culture of the Fund. I outline the IMF's operational culture below and explore the dynamics of normative cultural shifts further in Chaps. 4, 5, and 6.

Bessma Momani (2007b) highlights an evaluation completed in 2006 by the IEO that documents several prominent characteristics of the IMF's operational culture. In the study, staff members were asked to assess which categories of behavior accurately described the institution.[15] The survey response points to four primary cultural characteristics highlighted by the staff: bureaucracy, hierarchy, homogeneity, and technical or economistic thinking.

Bureaucratic

The Fund follows a series of standard operating procedures with proposals and country reports that produce and reinforce bureaucratic tendencies in the institution. Country reports move through a chain of command within area departments (e.g., the African department), starting with the desk officer and moving upward to division chiefs and then to the responsible area department's senior staff. Following review by the senior staff in the area department, the document in question then is sent to the strategy, policy, and review (SPR) department. SPR consists of two strategy divisions and six issue divisions (see Fig. 2.3), two of which solely focus on LIDC issues. SPR serves as the main gatekeeper for Fund policy positions and is the main generator of new initiatives.

SPR is also designed to maintain institutional coherence in its policy recommendations. Relative to its role as the IMF's gatekeeper, SPR's review process focuses on two objectives. First, through its extensive review and editing process, SPR ensures that country reports and other policy proposals comply with the Fund's institutional mission. Second, as SPR is not tied to any particular member state or area department, its review process provides a more objective take on policy choices (Harper 1998: 238). Once approved by SPR, the policy document is forwarded to the managing director and finally to the executive board for adoption or rejection. If rejected by the executive board, the report or policy recommendation is returned down the chain of command for the next round of review and revision.

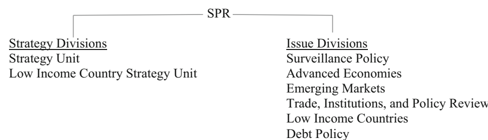


Fig. 2.3 Strategy policy and review department

Extensive documentation is thus a common complaint from staff. Particularly in the case of mission chiefs and others involved with LIDCs, the PRSP process and coordination with the World Bank has added multiple layers of review and bureaucracy to the policymaking process.[16] Demands for timely documentation within the bureaucracy also produces a dynamic where the 'need for speed' is often in conflict with the 'need for local knowledge' (Evans and Finnemore 2001: 9). Staff are often not given sufficient time to understand the particular dynamics of countries and also feel pressured to quickly report findings and issue recommendations to their superiors.

Hierarchical

Several studies of IMF dynamics highlight that an institutional mandate focused on short-term crisis management reinforces a hierarchical culture in the institution. Former UK Executive Board Director Ian Clark, in an internal 1996 study focused on the Fund's adaptability, noted how the institution identified with its 'crisis management capability' and how this favored hierarchical tendencies:

> A prized element of the Fund's culture…is its organizational discipline and crisis management capability. The goal of presenting a single corporate line in negotiations with countries requires a somewhat hierarchical managerial style and highly developed internal procedures to encourage questioning and debate at an early stage but to act with Cabinet-like solidarity after decisions are made. (IMF 1996: 24–5)

Momani's investigation into Fund staff culture elucidates how hierarchical tendencies in the Fund produce a 'silo mentality' that discourages coordination and communication across departments. Several studies support this claim. An internal 1991 report concluded that the Fund staff had 'a sense of allegiance to an individual department, which rewarded loyal service and was protective of staff'.[17] A 1999 review of surveillance noted how a lack of communication between the research department (RES) and the Asia and Pacific department (APD) did not allow for concerns around South Korea's poorly regulated financial sector to be properly explored and may have led in part to the Asian crisis.[18] A 2006 IEO report also concluded that the monetary and capital markets department (MCM) seeks little input from area departments when in creates the annual *GFSR*.[19] And finally, a 2011 IEO report focused on the IMF's failure to identify risks in the run-up to the 2008 crisis. It claimed that this was due in part to the

staff's reluctance to share information or seek consultation outside of their departments (IEO 2011a: 18). LIDC staff interviewed for this project, however, maintained that there is collaboration between the SPR and area departments, particularly the African department, when designing new policy directives.[20] This dynamic may also guard against the extensity of the silo mentality seen more broadly in the institution.

Homogenous/Conforming

About 60 % of the staff surveyed in the 2004 IEO report characterized the Fund as homogenous and conforming. A 2011 IEO evaluation focused on research at the Fund and found that conformity to 'IMF views' and 'preset policy prescriptions' remains. Of the staff, 43 % noted that research at the Fund shunned alternative perspectives, while 62 % reported that research and conclusions had to be aligned with IMF views (IEO 2011b: 87). A series of Fund evaluations identify several standard operating procedures that reinforce conformist tendencies. First, extensive review processes within departments often hamper inter- and intra-department communication and innovation. A 1999 external report noted that staff complained that 'the process [of internal departmental reviews] hinders innovation and flexibility; departments are inhibited from trying to do things differently'.[21] Second, staff reports forwarded to SPR and the executive board are designed to present a team view, and thus represent areas where staff has only found general agreement on the topic of concern. Third, all staff documents must conform to an accepted writing style. Momani (2007b: 50) argues that this is one additional process where dissenting or critical staff voices may be toned down or even eliminated. A focus on teamwork and assimilation is also reinforced by Fund protocol with new recruits. Here, a 2-year training program commonly includes time abroad where the new staff members are expected to assimilate and work with mission teams (Chwieroth 2010: 39).

The IMF's hiring practices also reinforce a homogenous culture. Since 1970, the primary recruiting tool for new staff has been through the Economist Program (EP). From an annual initial recruitment pool of between 1500 and 2000 applicants, roughly 20–50 economists are hired through the EP each year. Comparison of data from 1985–1987, 1991–1997, and 2007–2010 (see Fig. 2.4) shows a prominent increase in the percentage of women (from 5 % to 44.4 %) and those from 'underrepresented' regions (from 33 % to 59.3 %) brought into the Fund through the EP program.[22]

	1985/87	1991/97	2007/10
Female	5%	22%	44.4%
Underrepresented regions	33%	34.7%	59.3%

Fig. 2.4 Economist program recruits (1985–2010) (*Source*: Momani (2005) and IMF (2010c))

However, recruitment data also shows that the majority of new recruits from underrepresented regions come from East Asia and the former Soviet and Eastern European communist states. On average, only two new economists from Africa and the Middle East were recruited into the Fund annually between 2007 and 2010 through the EP (IMF 2010c: 23).

Longer-term trends charted by the IMF's diversity office also show that the percentage of Africans working at the Fund has remained between 6 % and 7 % between 1995 and 2010. In the same time period, the share of economists from the Middle East fell from 5 % to 4.4 %. Nationals from former communist states (2 % to 9.5 %) and East Asia (7 % to 10 %) increased their representation in the Fund during this period. Among the industrialized regions, European representation increased from 38 % to 44 %, while US and Canadian nationals declined from 24 % to 15 %.

Despite efforts to increase staff diversity by national origin and gender, staff remain predominately male (74.5 %) and from industrial countries (53.7 %). The USA (12 %) and the UK (5.2 %) have the greatest representation among staff by nationality, while only 6.5 % and 4.4 % of economists working at the Fund are from Africa and the Middle East respectively (IMF 2010c: 23). Along with the greatest representation by nationality in IMF staff, the majority of staff receive their academic training in the USA and UK. As of 2010, 72.2 % had earned their PhDs in the USA (63 %) or the UK (9.2 %) while only 1.2 % of staff held doctoral degrees from universities outside of the USA, Canada, or Europe (IMF 2010c: 28). The majority of new recruits currently are graduates from 15 universities in the USA and four universities in the UK.[23]

Several staff members have mentioned that while the staff come from around the world, the fact that they predominately study in US and European academic institutions helps reinforce patterns of 'groupthink'.[24] Specific to LIDC staff, a 2011 IEO study suggests that staff that work with LIDCs are less homogenous and conforming in their thinking and interactions with country authorities than the institution at large. Among staff from LIDCs, 21 % 'strongly agreed' that Fund research was open to

alternative perspectives and was not driven by preset policy prescriptions. In comparison, only 4 % of authorities from advanced states and 8 % from emerging states responded in the same fashion (IEO, 2011b: 24).

Technocratic/Economistic

Architects of the IMF, including John Maynard Keynes and Harry Dexter White, structured decision-making processes such that the staff remained separate from the executive board. Although the executive board has the ultimate power to approve policy decision, it is normally not involved in crafting the 'nuts and bolts' of particular terms and conditions for loan arrangements or policy reform.[25] By design, it is the Fund's staff of macroeconomists who ideally set policy. The staff is therefore mainly responsible for key aspects of IMF functions including loan negotiations, program monitoring, and Fund communication policies.

The institutional power granted to a staff dominated by macroeconomists has reinforced a technocratic operational culture that historically has focused primarily on issues of economic efficiency when developing policies for member states. When drawn primarily from macroeconomic modeling, policy recommendations tend to downplay or sometimes ignore country-specific political and institutional dynamics. Internal and external reviews point to a history of complaints from member state representatives on the practicality of Fund recommendations. A 2004 study reported that

> Fund advice fails to take into account existing political constraints, or is so optimistic about the ability of the governments to overcome them that it does not consider second-best policy choices that would be consistent both with maintenance of macroeconomic stability and country-specific realties.[26]

A key change mentioned by several staff members during interviews was that in the past decade the 'firewall' between macroeconomic policies and development policies has eroded. While staff did not previously concern themselves with issues such as spending composition, income distribution, and the social effects of policy choices, linkages between politics and economics have emerged. Despite this shift, this change in operational thinking is not complete and has produced some confusion on how the Fund engages in its policy work.[27]

LIDC staff also still see themselves as practical economists who objectively evaluate data and focus on 'what works' rather than ideologues

pushing a particular agenda. A senior staff member described this dynamic as follows:

> I would not pin the Fund's position too much on any internal change in culture and thinking, but perhaps more of an evolution also of the countries that we work in. So there has been a shift in what's possible because many countries have made a lot of progress in macroeconomic stabilization. Probably more circumstances have shifted than internal views of people. I can assure you that within the staff there have no debates where terms including 'neoliberal' or 'Keynesian' has been uttered.[28]

This sentiment was reiterated by an executive director representing LIDCs who maintained that the IMF is not ideologically driven, is open to all economic views, and does not promote policy choices based on any particular economic paradigm.[29]

In sum, LIDC stuff diverge from several trends found in the IMF's organizational culture. First, the Fund operates in a bureaucratic, hierarchical fashion. The policy review process follows a standard operating procedure that moves up the chain of command and includes various points of review. At the staff level, SPR serves as the main gatekeeper for potential policy reform at the Fund. Concerning LIDC policymakers, three divisions within SPR (low-income country strategy unit, low-income countries, and debt policy) are responsible for reviewing all LIDC policy documents before these are passed up to the managing director and executive board. Second, a culture of 'silo mentality' exists between departments in the institution. There is, however, evidence of collaboration between the African, research, and SPR departments concerning LIDC issues. Third, the staff is made up of economists primarily trained in elite universities in the USA and the UK who identify themselves as non-ideological, practical technocrats. Fourth, despite recruitment patterns and institutional design that reinforces homogeneity in staff thinking, survey evidence demonstrates that LIDC staff are more open to alternative perspectives than other departments. Adoption of the PRSP process in 1999, for example, has increased the variables included in LIDC policymaking. Greater openness to alternative perspectives also appears to give LIDC staff greater intellectual room to explore ideas that have historically varied from norms within the Fund.

Based on its formal operations and operational culture, an argument can be made that the IMF is simply a technocratic institution that objectively

responds to facts on the ground to alleviate balance of payment crises and promote international economic stability and growth. In agreement with scholars working on the IMF, I argue that the institution is much more than a technical support instrument for its member states' monetary and fiscal concerns. Since 1945, the Fund's power in the international system also makes it a key political actor that formally and informally shapes development outcomes across much of the global South (Barnett and Finnemore 2004; Woods 2006; Vreeland 2007). To support this claim, and to give context to the post-Washington Consensus period studied in Chaps. 4, 5, and 6, I outline below the evolution of the IMF's relationship with LIDCs from its birth seven decades ago up to the mid-1990s.

2.5 1944–1952: The Bretton Woods Framework and the Rise of IMF Conditionality

At the end of World War II, US and British policymakers led negotiations with allied states to reconstruct the international monetary and financial system. These deliberations touched upon several areas of concern. Since the Great Depression, states had abandoned the classic gold standard of foreign exchange rates for floating exchange rate systems.[30] This shift had substantive effects in multiple policy areas. Under the fixed exchange rate of the gold standard, states generally implemented deflationary monetary and fiscal policies when currencies came under pressure from balance of trade deficits.[31] With floating exchange rates, states instead corrected deficits through currency depreciation and increased trade barriers. Along with disruptions from two major wars, this pattern of competitive 'beggar thy neighbor' devaluations and protectionism resulted in major contractions in global trade and production.

Shifts in domestic political forces also pushed states away from the gold standard in the interwar years. While deflationary monetary and fiscal policies to support fixed currency values were relatively easy to implement in the pre-World War I period, increased electoral franchise and the growing power of organized labor made such measures less politically tenable. Governments instead came under increased pressure to implement countercyclical monetary and fiscal measures during economic downturns and deficit spending more generally in support of emerging welfare states. Following the Great Depression, governments also began instituting capital controls to support domestic expansionary policy initiatives and to

counter increased speculation that facilitated the global economic collapse of the 1930s (Helleiner 2008: 217–8).

Rebuilding the international financial order through a multilateral institutional framework thus required strategies to balance the domestic priorities of emerging welfare states and full employment policies with a desire to move away from the protectionism and competitive devaluations seen in the interwar period. This tension between domestic welfare state policy objectives and a desire to restore a liberal international system manifested itself in what John Ruggie describes as the compromise of 'embedded liberalism' adopted by capitalist states:

> The embedding of commitment to economic openness—the liberal element—within domestic economic and political objectives was attained through the inclusion of provisions in the rules of international trade and finance that would allow governments to opt out, on a temporary basis, from their international commitments should these threaten fundamental domestic economic objectives. (Ravenhill 2008: 13)

Within this context, the Bretton Woods framework was built around three pillars. To encourage trade liberalization, states committed to reducing protectionist barriers through the multilateral framework of the General Agreement on Tariffs and Trade (GATT).[32] A flexible gold standard arrangement built around IMF monitoring and support was introduced to ensure currency stability. States pegged their currencies to the US dollar, convertible at $35/ounce, and agreed to hold exchange rates to within 1 % of this level. With IMF consultation, member states could correct a 'fundamental disequilibrium' with up to a 10 % devaluation of currency. States contributed to an IMF monitored stabilization fund designed for countries to finance temporary balance of payments deficits rather than be reliant on private creditors. These policies would substitute the harsh domestic austerity adjustments seen under the classic gold standard. Finally, states could control short-term capital flows as deemed necessary under the new Bretton Woods regime. This allowed individual state autonomy in instituting monetary and fiscal policies that supported full employment and the subsequent stability needed for long-term liberalization.[33]

In its original institutional form, the IMF had no formal mandate to deal with development issues. This was left to the International Bank for Reconstruction and Development (the World Bank). While given clearly distinct roles, the Bretton Woods design also directly linked the two institutions through a provision in the World Bank's Articles of Agreement

which made IMF membership a precondition to World Bank membership. This linkage was driven by two concerns. IMF membership required that states agree to exchange rate and currency restrictions, and surveillance of domestic economic policy. World Bank membership, in contrast, offered only the benefit of access to development loans. Linkage would therefore reduce the risk of free-riding behavior. Those behind the Bretton Woods framework also argued that monetary stability was an essential prerequisite for successful bank lending. Fund membership thus served as leverage to push states to have their fiscal and monetary 'houses in order' as a precondition for bank development loans.

The Bretton Woods framework also reflected different tensions seen among powerful states at the time. The USA, as the clear political and economic hegemon, prioritized economic liberalization within the IMF. European powers, particularly a weakened Britain, focused more on issues of long-term stability, regulation, and a framework that supported post-war reconstruction (Boughton 1998: 12–25). Another controversial area specific to IMF activity involved conditional lending for short-term balance of payments deficits. Britain and European states argued that conditionality requirements for lending for short-term balance of payments deficits should be strictly limited. By 1950, the stand-off between Fund staff pushing for conditionality and European resistance to these efforts set off a crisis in the institution as none of the members drew on IMF resources during the year. In response, Managing Director Ivar Rooth (1951–1955) persuaded member states to agree to a system of tiered conditionality. Each member state would have condition-free access to the first 25 % of its quota paid to the IMF in gold (the 'gold tranche' at the time). Any loan amounts greater than the gold tranche would be subject to Fund conditionality and surveillance (Barnett and Finnemore 2004: 58). Approved in 1952, tiered conditionality arrangements would be negotiated via SBAs. In return for access to 'upper credit tranches', states agreed to implement specific policies laid out in SBAs. The SBAs remain the primary non-concessionary lending tool of the Fund.

2.6 1953–1962: IMF 'Common Sense', the Polak Model, and SBAs

Poor states were not the primary concern of the early Bretton Woods system. Only five of the original members of the Fund and World Bank would be considered low income by today's standard. Several factors quickly broadened the institutional focus of the IMF to include the concerns of

developing states in the 1950s. First, the Fund was shut out of European reconstruction efforts as Marshall Plan aid was conditional on *not* using IMF (or World Bank) resources. As such, the IMF was eager to broaden its membership.[34] Decolonization movements also increased the number of poor states in the international system and subsequently, these states became members of the Fund and World Bank.

Cold War politics played a central role in the IMF's early activity in the global South. Here, the Fund and World Bank pushed an evolutionary model of development that rejected non-capitalist approaches championed by the Soviet Union and a growing number of leftist and nationalist revolutionary movements. 'Modernization theory' pushed by the IMF and World Bank, and the values and ideas that went with it, are best captured in US economist Walt Whitman Rostow's *The Stages of Economic Growth*: *A Non-Communist Manifesto*. Rostow outlined key prerequisites necessary for successful development in poor states. These included: technological and scientific expertise; appropriate infrastructure; education; the rule of law; private property rights; and the rejection of both 'traditional' values *and* communism (Rostow 1961). John McCloy, the first president of the World Bank, was even more explicit in his description of the role that the Bretton Woods institutions played in supporting US and Western geopolitical imperatives. The World Bank 'would create markets for U.S. trade... [and] stop Communism'.[35] Within this context, the Fund formally entered its first agreement with a developing state in 1954 (a US$12.5 million SBA arrangement with Peru) and steadily increased its activities in Latin America, Africa, and Asia in the 1950s.[36]

A critical driver of the emerging 'common sense' behind the Fund's policy on conditionality for SBA lending at the time, and arguably still in existence at some level today, was the work of the IMF's RES under the leadership of Jacques Polak (1959–1979). In the early post-World War II period, economists at the Fund had not yet developed the analytical and theoretical tools necessary to engage with the new Bretton Woods system. In response, the RES under Polak developed a model that drew from an 'absorption' and 'monetarist' approach to balance of payments. With regard to the former, much of the work in the interwar period on the impact of currency devaluation on balance of payments deficits focused its analysis on shifts in supply and demand for imports and exports in the devaluing country.[37] Polak rejected this approach. Rather than focus on multiple elastic variables, he instead proposed a 'simple social accounting' premise regarding balance of payment deficits:

> [T]he existence of balance-of-payments deficit implies that the country absorbs more resources in consumption and investment than it produces. Therefore, if devaluation is to cure this deficit, it must either increase production with consumption and investment constant, or decrease consumption and investment with output constant, or achieve some combination of the two.[38]

Polak's emphasis on the level of consumption as the primary variable that impacts balance of payments deficits served as the foundation for the IMF's focus on the domestic policy choices of its members.

While the absorption approach redirected the attention of the Fund economists to the features of the domestic economies of member states, no model existed to examine how the different components of economies contributed to balance of payments problems and what policy tools could be used for correction. Polak's 'monetary model' demonstrated that states could not correct balance of payment deficits in the long term solely through either an increase in exports or a restriction on imports. Correction of deficits instead only occurred if the rate of monetary expansion remained below the growth rate of real gross national product. Deficit correction therefore required either a decrease in domestic consumption or an increase in productivity. Given that substantive productivity increases were difficult to attain within the timeframe of Fund short-term lending, the Polak model pushed for a reduction in government spending, a deflationary monetary policy, and tax increases. Along with narrowing the policy focus for IMF staff, Polak argued that this model was practical as the information needed (banking and trade statistics) was generally available, while the data needed for elastic models were incomplete and often inaccurate (Polak 1997a: 16-8).

Polak's model and subsequent Fund thinking thus clearly placed the onus of correction on deficit states and their domestic policy choices. It is important to note that there were other ways IMF thinking may have evolved concerning deficits and adjustment. Since the 2008 financial crisis, for example, the Fund has paid greater attention to the role of surplus states in creating global imbalances and called on these governments to adjust (IMF 2010d: 29–30). Another possible approach to balance of payments issues is the study of exogenous, systemic conditions that undermine the ability of states to increase export earnings to correct trade imbalances. In the 1950s, however, the analytical framework of the IMF did not examine the policies of surplus states as a cause for global disequilibria. Instead, a focus on domestic issues in deficit states produced a series of anti-inflationary policy choices that became the standard for

Fund engagement with LIDCs.[39] Ngaire Woods (2006: 42–3) contends that this approach resonated most strongly due to the fact that it was easier for the IMF to deal with domestic causes of balance of payment deficits, rather than engage with broader systemic issues. Powerful member states, including the USA, also were supportive of Polak's framework.

There is evidence that by the late 1950s, the IMF had begun early engagement with development issues that tied Polak's deflationary model to areas of growth in poor states. This is captured in excerpts from the Fund's 1959 Annual Report defending the need for short-term anti-inflationary adjustment:

> Notwithstanding the realization that is now fairly general that sound economic development is not compatible with the distortions that rapid or chronic inflation always creates, a number of less developed countries have had great difficulty in abating or slowing down the rates of inflation…The temporary deterioration of the standard of living [due to] a stabilization program is inevitable [and] may be interpreted by some sections of the public as an indication of the failure of the program, and give rise to the claim for prompt upwards adjustments in wages and salaries and for more liberal credit terms, which, if granted will again generate inflationary pressures.[40]

In the 1961 annual meeting, IMF Managing Director Per Jacobsen (1956–1963) reinforced this vision of the Fund as a tool for stabilizing long-term gaps in capital inflow during periods of adjustment (James 2009: 36).

2.7 1962–1971: Push Back, Early Concessionary Lending, and LIDC Technical Assistance

The implementation of Polak inspired adjustments in developing states was not without its critics. Conservative voices, including the *Economist*, argued that the restrictive monetary policy pushed by the IMF undermined Western influence in the Cold War: In a 1961 article, Per Jacobsen was described as 'Mr. Khrushchev's secret weapon', overseeing potential 'serious social eruption' in developing states.[41] Pushback from the left came in two primary varieties. Deflationary prescriptions in Fund policy and a push to eliminate multiple exchange rates stood in sharp contrast to ISI theory popular in Latin America and much of the global South at the time.[42] Among other policies to stimulate industrialization in developing states, ISI frameworks embraced heavy government intervention in the economy.

Inflation for ISI advocates was simply a by-product of state-driven investment and subsequent monetary expansion and remained desirable within limits (James 2009: 23). More radical critiques tied IMF policy to broader attempts by wealthy countries and capitalist elites to undermine the efforts of poor states to diversify and industrialize. Here, dependency theorists, including Celso Furtado, pointed to the fact that US aid and access to private capital were often linked to states first agreeing to anti-inflationary SBAs.[43] For Furtado, the IMF 'operated primarily as a U.S. control instrument over the economic and financial polices of other countries, especially the so-called under developed countries' (Furtado 1963: 252–3).

Concerns about SBAs also emerged within the Fund and Washington policy establishment in the early 1960s. An internal IMF staff document focused on Colombia, for example, concluded that it was 'not too strong to say that the Colombian case tends to support many of the recent criticisms of the Fund'.[44] External and internal critiques, and the furor created by a new concessionary branch of the World Bank (the International Development Association or IDA), pushed the Fund to create its first loan facility focused on the needs of poor states in 1963.[45] The 'Compensatory Financing Facility' (CFF) acknowledged that volatility in primary commodity prices impacted balance of payments issues in states dependent on agricultural and mineral exports. Temporary low conditionality funding to accommodate downturns in commodity prices thus could be more appropriate than short-term austerity (Boughton 2001: 724–5). Under the CFF, overall Fund lending to states in the global South increased from US$243 in 1963 to US$723 million in 1967 (Boughton 2009: 53).

By the mid-1960s, a growing number of developing states also pressured the Fund to address the causes of commodity price fluctuations. This was a major goal shared by states that formed UNCTAD in 1964. UNCTAD also pushed the IMF to focus on the drop in global liquidity seen through the 1960s. UNCTAD argued that inconsistent access to short-term lending resources was a key element that caused disruptive balance of payment crises. Pressure from developing states and emerging European economies helped catalyze the 1969 adoption of SDRs within the Fund (James 2009: 43). The IMF's role, as a provider of technical assistance to poor states, also expanded in the 1960s. Since most new African states at that time had no central banks, the Fund created its 'Central Banking Service' in response. In 1964, the IMF Institute was opened in Washington, DC. To rectify weak data collection across the global South, the Fund also opened its Bureau of Statistics in 1969.

2.8 1971–1996: Breakdown of Bretton Woods and the Washington Consensus

While the IMF's role in the global South was established by the early 1970s, several factors pushed the institution more firmly into the realm of LIDC development. The most influential factor was the collapse of the Bretton Woods system of adjustable pegged exchange rates between 1971 and 1973. As industrialized states adopted floating exchange rates, a primary component of the Fund's original institutional responsibility vanished. An institutional focus on chronic balance of payments issues in developing states filled this vacuum. The Fund also found itself marginalized in its role as financier of balance of payments deficits in middle-income states. Major commercial banks flush with OPEC petrodollars accelerated lending to the global South and undermined the IMF's presence in emerging and middle-income countries. For these states, 'no-questions-asked' private loans were more desirable than conditional SBAs (Polak 1997b: 478). By the mid-1970s, the IMF's main policy interventions were in the world's poorest states deemed too risky for private investors.

As the Fund's clientele became poorer, three initiatives were introduced to meet LIDC needs: the Oil Facility, the Trust Fund, and the EFF. Both the Oil Facility (1975–1983) and Trust Fund (1976–1981) were financed outside the Fund's general account and represented the first generation of IMF concessional lending.[46] The EFF, introduced in 1974, signified a watershed moment in regard to the Fund's contemporary role in poor states. The 3-year EFF loan was designed by IMF staff to fill a gap between short-term SBA financing and long-term World Bank development aid. Unique to the EFF was its focus on correcting long-term structural issues in member states that produced 'slow growth and an inherently weak balance of payments position' that undermined 'an active development policy'. While Polak inspired macroeconomic policy conditionality focused on short-term issues, structural conditionality went deeper as it pushed for substantial reform in national economies and their legal systems and linked reform to broader issues of development (Chorev and Babb 2009: 465). As developed further in Chaps. 4 and 5, structural conditionality focused on liberalizing economies became the new norm at the IMF and the World Bank following the 1982 Mexican debt crisis.

By the early 1980s, LIDCs accounted for 44 % of the IMF's membership and over 60 % of its borrowers (Boughton 2009: 55). These states faced a series of daunting challenges sparked by a perfect storm of

events from 1979 to 1982. The second oil crisis of the decade cut into the national income of non-oil producing states and reinforced already existing patterns of high inflation across the global South. Inflationary concerns were not limited to LIDCs, as the US Federal Reserve dramatically curtailed monetary supply from 1979 to 1982. The subsequent combination of higher interest rates for global debtors and reduced demand from industrialized states for their products pushed up unemployment, increased balance of payments deficit and debt levels, and reduced access to cheap private financing.

The initial response to the 1979 oil shock included increased pressure from borrowers and creditors on the Fund to increase LIDC lending. Managing Director Jacques de Larosière (1978–1986) responded in kind with a strategy that pushed for increased conditional lending. By promoting SBAs and the EFF to LIDCs, overall Fund upper tranche conditionality lending grew from an annual average of US$1.25 billion in 1973–1978 to US$3.23 billion from 1979–1984 (Boughton 2001: 563). Fallout from the 1982 Mexican debt crisis also reshaped the Fund's relationship with its poorest member states. Here, IMF conditionality requirements worked to dismantle the remnants of state-heavy ISI strategies that were perceived as responsible for high inflation, corruption, inefficiency, and chronic balance of payment problems across much of the developing world at the time. As introduced in Chap. 1, these were described as 'Washington Consensus' reforms and included: trade and financial liberalization; privatization of state enterprises; reduction and elimination of subsidies; liberalization of labor markets; restructuring taxation toward consumption-based systems; and strengthened institutional protection of private property rights.

Washington Consensus reforms were pursued in LIDCs through two concessionary lending arrangements. In 1986, the IMF introduced the Structural Adjustment Facility (SAF), which merged concessionary lending and structural conditionality requirements into one loan program for the first time. IDA eligibility was set as the income criterion for access to the 3-year SAF, and 60 LIDCs qualified to draw from approximately US$3.2 billion in lending resources (Woods 2009: 235). The conditionality requirements of the SAF were designed to be stricter and broader than those previously enacted under the Trust Fund. Whereas the Trust Fund was designed to 'carry out programs of balance of payment adjustment', policy reforms in SAFs were spelled out in a Policy Framework Paper (PFP) where the member state in question would outline 'a three-year adjustment program…to correct macroeconomic and structural problems that have impeded balance of payment

adjustment and economic growth' (Polak 1991: 18–9). The PFP process also included World Bank participation at various steps. After a state requested a SAF loan, IMF and World Bank staff collaborated to draft an initial PFP to be negotiated with country authorities. Once the PFP negotiation process was complete, the World Bank's executive board would review the agreement and forward its recommendation to the IMF's board. Despite low funding levels, stricter conditionality, and a cumbersome review process, 29 countries borrowed a total of US$2.4 billion through the SAF program from 1987 to 1999 (Boughton 2001: 654).

The ESAF, initiated in 1987, tripled the resources available to qualifying states through the establishment of the ESAF Trust. LIDCs applying to the ESAF also could draw on a substantially higher percentage of their quota (140–185 % over 3 years) than under the SAF (63.5 %). To strengthen conditionality requirements, the ESAF introduced procedures that linked semiannual disbursement of funds to successful completion of PFP negotiated 'structural benchmarks' and 'structural performance criterion'. Performance criteria, eliminated in 2009, were easily measurable benchmarks, set by the executive board, that a member state was expected to meet. If a member state failed to fulfill performance criteria, a waiver from the executive board was required for any future distribution of loan resources. Structural benchmarks, also approved by the executive board, are 'often non-quantifiable reform measures that are critical to achieve program goals and are intended as markers to assess program implementation during a review'.[47] Between 1988 and 1999, the ESAF became the primary concessional loan instrument of the Fund, disbursing over US$10.7 billion through 90 arrangements to 52 LIDCs.[48]

2.9 Conclusion

In sum, six trends from 1945 to 1996 highlight the IMF's contemporary role in formally and informally shaping LIDC policy choices. First, the focus of the IMF shifted from industrial economies to poor states during this time. In the 1960s, less than 10 % of Fund lending went to Organisation for Economic Co-operation and Development (OECD) members, and from 1975 to 2007, no Western industrialized state received Fund loans (Chorev and Babb 2009: 470). Second, since the establishment of Polak inspired conditionality in the 1950s, members are granted access to resources contingent on the implementation of Fund-directed policies. While these conditions changed over time, the leverage of the

IMF to impose rules or reform remains in place in LIDCs. Third, the Fund has evolved to informally serve as a gatekeeper for member access to World Bank loans, other multilateral assistance, and private banks. Fourth, the adoption of the Polak model shaped how the institution perceived economic problems and influenced its general formula for corrective action. Balance of payments problems and low economic performance were considered primarily the fault of deficit states. Adjustment and belt-tightening in LIDCs, rather than a focus on the behavior of surplus states or the instability of global markets, is the primary lens through which policy was developed and implemented.

Fifth, the Fund's decision-making process, with a marked focus on statistics and technical data, influenced what member states measured and the rules and procedures undertaken to collect this information. Member governments, in turn, responded by creating new categories of measurement and subsequent policy focus. And finally, IMF policy choices and technical assistance were portrayed as based on objective, apolitical 'facts' and econometric modeling. This helped establish the IMF as a legitimate authority in LIDCs (Barnett and Finnemore 2004: 69), which in turn supplemented the Fund's growing power in shaping outcomes in its poorest member states.[49]

The expression of the IMF's power and interaction with LIDCs, however, diverges from broader institutional trends in several key areas. Evidence from survey data and interviews suggests that LIDC staff exhibit more openness to alternative ideas and issues tied to development than their colleagues working with middle-income and wealthy states. Since the introduction of PRSPs in 1999, the IMF LIDC staff also are involved in 'participatory' processes with LIDC country authorities. This has produced a more consensual dynamic in creating policy directives. The IMF, like any bureaucracy, thus has multiple and sometimes conflicting viewpoints and operational tendencies. At the same time, there are broad-based and 'deep' institutional operational norms that influence LIDC policy and change. As also demonstrated in this chapter, a broad range of actors including powerful states, the IMF's managing director, shifting economic ideas, and broader geopolitical factors played a role in shaping the institution's LIDC policy choices through the Washington Consensus period. As developed in Chap. 3, I therefore argue that a research design that draws from diverse theoretical traditions provides the greatest analytical leverage to explain the effects that multiple tendencies and actors exert on post-Washington Consensus LIDC reform.

Notes

1. IMF Official Website, Articles of Agreement of the International Monetary Fund, http://www.imf.org/external/pubs/ft/aa/index.htm, date accessed 4 June 2015.
2. The current quota system formula involves four components: GDP (50 %), openness (30 %), economic variability (15 %), and international reserves (5 %).
3. Prior to 1973, the reserve tranche was paid in gold. Today, countries pay in four currencies—the US dollar, euro, yen, or pound sterling.
4. IMF Official Website, IMF Factsheet: IMF Quotas, http://www.imf.org/external/np/exr/facts/quotas.htm, date accessed 4 June 2015.
5. Any major initiative can be blocked by 15 % of the total allocated voting shares.
6. IMF Official Website, IMF Factsheet: Special Drawing Rights (SDRs), http://www.imf.org/external/np/exr/facts/sdr.htm, date accessed 4 June 2012.
7. IMF Official Website, IMF Factsheet: Standing Borrowing Arrangements, http://www.imf.org/external/np/exr/facts/pdf/gabnab.pdf, date accessed 5 June 2015.
8. IMF Official Website, Governance Structure, http://www.imf.org/external/about/govstruct.htm, date accessed 4 June 2015.
9. IMF Official Website, IMF Factsheet: A Guide to Committees, Groups, and Clubs, http://www.imf.org/external/np/exr/facts/groups.htm#IC, date accessed 5 June 2015.
10. IEO Official Website, http://www.ieo-imf.org/#, date accessed 5 June 2015.
11. These are located in Fiji, Barbados, Tanzania, Mali, Gabon, Lebanon, and Guatemala.
12. Multilateral donors include: the African Development Bank, the Asian Development Bank, the Caribbean Development Bank, the Inter-American Development Bank, the Islamic Development Bank, the European Investment Bank, the European Commission, and the United Nations Development Program.
13. IMF Official Website, IMF Factsheet: The Policy Support Instrument, https://www.imf.org/external/np/exr/facts/fsap.html, date accessed 6 June 2015.
14. IMF Official Website, IMF Factsheet: The Financial Sector Assessment Program (FSAP), available at https://www.imf.org/external/np/exr/facts/fsap.html, date accessed 6 June 2015.
15. See Lissakers et al. (2006).
16. Author interview with IMF staff member from the African department, Washington, DC, September 2011.

17. IMF, *The Fund's Personnel Policies and Objectives*, EPAP/91/46, 1 March 1999 (IMF Archives), pp. 4–5 as cited by B. Momani (2007a: 45).
18. IMF, *External Evaluation of IMF Surveillance* (Washington, DC: IMF, 1999), p. 65 as cited by Momani (2007a: 45).
19. IEO, *Evaluation Summary: Multilateral Surveillance* (Washington, DC: IMF, 2006), pp. 2–3. 11, 13, 21, 27–30 as cited by J. Chwieroth (2010: 36).
20. Author interview with IMF staff member from the SPR department, Washington, DC, September 2011.
21. IMF, *External Evaluation of IMF Surveillance*, p. 33 as cited by Chwieroth (2010: 39).
22. Data compiled from B. Momani (2005: 174) and IMF (2010c: 23).
23. US universities include: University of Pennsylvania, Princeton, Columbia, New York University, Yale, University of Minnesota, University of Chicago, University of Michigan, Northwestern, Harvard, Boston University, MIT, UCLA, UC Berkeley, and Stanford. UK universities include: Cambridge, Oxford, Warwick, and the London School of Economics.
24. Author interview with Fund staff member from APD, Washington, DC, September 2011.
25. For cases when the executive board has intervened to set policy outcomes, see Momani (2004).
26. IMF (2004). *Biennial Review of Implementation of the Fund's Surveillance and the 1977 Surveillance Decision Modalities of Surveillance* (Washington, DC: IMF), p. 12 as cited by Chwieroth (2010: 37).
27. Author interview with Fund staff member from the SPR department, Washington, DC, September 2011.
28. Author interview with Fund staff member from the SPR department, Washington, DC, June 2011.
29. Author interview of IMF executive board director, Washington, DC, January 2012.
30. Under the leadership and pressure of Great Britain, most economies had adopted the gold standard by the 1870s. Following World War I, a weakened gold standard was reinstated in 1925 and lasted until speculative attacks on the British pound in 1931 pushed the UK and leading states to abandon the policy.
31. See Eichengreen (1996: 25–7). In what David Hume described as the self-correcting dynamic of 'price-specie flow mechanism', states with balance of trade deficits could only maintain currency value by decreasing money supply. Fiscal tightening and increased interest rates would also help reverse deficits by attracting short-term capital to finance temporary balance of payments imbalance.
32. The original Bretton Woods arrangement called for the creation of the International Trade Organization. These efforts were abandoned when the US Senate refused to ratify the agreement in 1950.

33. Without capital controls, states would not be able to implement deflationary or expansionary monetary policy under the Bretton Wood framework. For example, if state A instituted a monetary stimulus via increased money supply and lower interest rates without controls, short-term capital would flow to other states with higher rates of return and counteract the initial stimulative effect. In the same scenario, if state A wishes to slow down the economy via increased interest rates, capital would flow in. Capital controls under a fixed exchange rate system thus allowed states to implement monetary and fiscal policies without being concerned that the inflow or outflow of short-term capital would counteract initial policy goals.
34. Two US-led initiatives sidelined the IMF and the World Bank in the early post-war years. In 1946, the USA pressured the UK to restore currency convertibility between the sterling and dollar through a US$3.75 billion 'Anglo-American Loan Agreement'. Though designed to last for five years, loan resources and British reserves were exhausted in six weeks after pound-dollar convertibility was declared. With American consent, convertibility was suspended in August 1947. The 'sterling crisis' served as one of the major catalysts for the US-led Marshall Plan and the subsequent sidelining of the Fund in European reconstruction efforts. Here, Marshall Plan aid was only extended to states that agreed not to seek Fund resources to service balance of payments issues, reinforcing direct US control over European financial affairs. The World Bank was also largely uninvolved with reconstruction. While the Marshall Plan funds totaled over US$18 billion from 1947 to 1953, the World Bank made loans of only US$753 million while US$812 million was drawn from the IMF during the same time period. See Eichengreen (1996: 105–8) for further detail.
35. As quoted by Nustad (2004: 16).
36. SBAs were signed in Mexico (1954), Bolivia (1956), Chile (1956), Cuba (1956), Nicaragua (1956), Columbia (1957), Honduras (1957), Paraguay (1957), Argentina (1958), Brazil (1958), El Salvador (1958), Haiti (1958), the Dominican Republic (1959), Iran (1956), India (1957) Pakistan (1958), South Africa (1958), and Morocco (1959).
37. These models assumed that devaluation would initially lower prices for exports and increase prices for imports. Subsequent upward shifts in the demand for exports and downward shifts in imports would result in a 'correction', pushing export prices back up and import prices down at least partially to pre-devaluation levels. To estimate the degree to which devaluation ultimately influenced balance of payments deficits in a state, four different 'elastic' variables are necessary: foreign demand for a state's export, the supply of export, demand for imports, and supply of imports from the rest of the world.
38. Polak (1951), as cited by Barnett and Finnemore (2004: 53).
39. Barnett and Finnemore (2004: 55) describe the impact of the Polak's model on the Fund as follows: '[T]he Polak model and absorption approach…

strongly shaped Fund action over the coming years. They shaped the contacts Fund officials had with member states. National officials who controlled the money supply-central bankers and finance ministers-became the chief interlocutors of Fund officials. They shaped the kinds of data the Fund collected and what Fund staff, as well as national bureaucrats, knew about member state economies.'

40. IMF 1959 Annual Report as cited by James (2009: 22–3).
41. The *Economist* as cited by James (2009: 40).
42. Multiple exchange rates for developing states at the time often included overvalued exchange rates for essential imported items and undervalued exchange rates for luxury items or imported goods produced by protected industries. Lower exchange rates were also applied to select industries for export. The Fund argued that the multiple exchange rate system was essentially a subsidy to support select industries and thus created economic distortions and inefficiency. Lower exchange rates also created inflationary pressure as central banks printed money to make up for losses.
43. Following Peru's 1954 SBA, for example, the USA sent development assistance to Peru and opened a credit line with Chase National Bank of New York.
44. IMF Archives (1963) as cited by James (2009: 40).
45. Established in 1960 in response to the concerns of poor states, the IDA provides interest free, long-term loans to so-called Part II member states. As of 2015, 77 World Bank members qualified for IDA loans. IDA funding comes primarily from wealthy member states and is seen as a major point of leverage to shape World Bank policy.
46. Following the 1973–1974 oil shock, 25 countries contributed US$195 million to the Oil Facility to lower the interest rate on loans for poor states most severely impacted by rising oil prices. The Trust Fund, financed by a sell-off of 16 % of the IMF's gold reserve between 1976 and 1980, provided low condition (loans were subject only to first tranche conditionality), low interest loans for 55 LIDCs.
47. IMF Official Website, IMF Factsheet: IMF Conditionality, http://www.imf.org/external/np/exr/facts/conditio.htm, date accessed 7 June 2015.
48. IMF Official Website, IMF Factsheet: IMF Concessional Financing through the ESAF, http://www.imf.org/external/np/exr/facts/esaf.htm, date accessed 7 June 2015.
49. For a discussion of different forms of authority seen in post-World War II IOs (rational-legal, delegated, moral, and expert), see Barnett and Finnemore (2005).

Bibliography

Barnett, M., and M. Finnemore. 2004. *Rules for the world: International organizations in global politics*. Ithaca: Cornell University Press.

Barnett, M., and M. Finnemore. 2005. The power of liberal international organization. In *Power in global governance*, eds. Barnett, M., and R. Duvall, 161–175. Cambridge: Cambridge University Press.

Boughton, J. 1998. Harry Dexter White and the International Monetary Fund. *Finance and Development* 35(3): 12–25.

Boughton, J. 2001. *Silent revolution: The International Monetary Fund 1979–1989*. Washington, DC: International Monetary Fund.

Boughton, J. 2009. Lending to and for the poor. In *Finance, development, and the IMF*, ed. J. Boughton and D. Lombardi, 51–63. Oxford: Oxford University Press.

Chorev, N., and S. Babb. 2009. The crises of neoliberalism and the future of international institutions: A comparison of the IMF and the WTO. *Theory and Society* 38: 459–484.

Chwieroth, J. 2010. *Capital ideas: The IMF and the rise of financial liberalization*. Princeton: Princeton University Press.

Eichengreen, B. 1996. *Globalizing capital: A history of the international monetary system*. Princeton: Princeton University Press.

Evans, P., and M. Finnemore. 2001. *Organizational reform and the expansion of the south's voice at the fund*. New York: United Nations.

Furtado, C. 1963. *The economic growth of Brazil: A survey form colonial to modern times*. Berkeley: University of California Press.

Harper, R. 1998. *Inside the IMF: An ethnography of documents, technology, and organizational action*. San Diego: Academic Press.

Helleiner, E. 2008. The evolution of the international and monetary and financial system. In *Global political economy*, ed. J. Ravenhill, 213–240. Oxford: Oxford University Press.

IEO. 2011a. *IMF performance in the run-up to the financial and economic crisis: IMF surveillance in 2004–07*. Washington, DC: IEO.

IEO. 2011b. *Research at the IMF: Relevance and utilization*. Washington, DC: IEO.

IMF. 1996. *IMF executive board minutes: 24 February 1996*. Washington, DC: IMF. Archive reference EBM 96/34.

IMF. 2010c. *Diversity annual report 2010*. Washington, DC: IMF.

IMF. 2010d. *What caused the global financial crises?-Evidence of the drivers of financial imbalances: 1997–2007*. Washington, DC: IMF.

James, H. 2009. Bretton Woods and the debate about development. In *Finance, development and the IMF*, ed. J. Boughton and D. Lombardi, 15–25. Oxford: Oxford University Press.

Lissakers, K., I. Husain, and N. Woods. 2006. *Report on the external evaluation of the independent evaluation office*. Washington, DC: IMF.

Momani, B. 2004. American politicization of the International Monetary Fund. *Review of International Political Economy* 11(5): 880–904.

Momani, B. 2005. Recruiting and diversifying IMF technocrats. *Global Society* 19(2): 167–187.

Momani, B. 2007a. Limits on streamlining fund conditionality: The International Monetary Fund's organizational culture. *Journal of International Relations and Development* 8(2): 142–163.

Momani, B. 2007b. IMF staff: Missing link in fund reform proposals. *Review of International Organizations* 2(1): 39–57.

Nustad, Knut. 2004. The development discourse in the multilateral system. In *Global institutions & development: Framing the world?* ed. M. Bøås and D. McNeill, 13–23. London: Routledge.

Polak, J. 1991. The changing nature of IMF conditionality. *Essays in International Finance 184* (Princeton University): 18–19.

Polak, J. 1997a. The IMF monetary model: A hearty perennial. *Finance and Development* 34(4): 16–18.

Polak, J. 1997b. The World Bank and IMF: A changing relationship. In *The World Bank: Its first half century,* eds. Kapur, D., J. Lewis, and R. Webb, Vol. 2. Washington, DC: The Brookings Institute.

Ravenhill, J. 2008. The study of the global political economy. In *Global political economy*, ed. J. Ravenhill, 3–25. Oxford: Oxford University Press.

Rostow, W.W. 1961. *The stages of economic growth: A non-communist manifesto.* Cambridge: Cambridge University Press.

Vreeland, J. 2007. *The International Monetary Fund: Politics of conditional lending*. New York: Routledge.

Weaver, C. 2008. *Hypocrisy trap: The World Bank and the poverty of reform.* Princeton: Princeton University Press.

Woods, N. 2006. *The globalizers: The IMF, the World Bank, and their borrowers.* Ithaca: Cornell University Press.

Woods, N. 2009. Governance matters: The IMF and Sub-Saharan Africa. In *Finance, development and the IMF*, ed. J. Boughton and D. Lombardi, 229–246. Oxford: Oxford University Press.

CHAPTER 3

Theorizing Post-Washington Consensus LIDC Reform

The historical overview provided in Chap. 2 highlights a variety of factors that influenced IMF LIDC policy choices through the Washington Consensus era. To help organize and sharpen engagement with post-Washington Consensus LIDC reform, Chap. 3 first formally reviews the IMF literature. Studies on the IMF identify multiple variables that influence its contemporary policy choices. These include powerful states, particularly the USA; elites in poor and middle-income states; the IMF's managing director and the IMF staff; private commercial and financial interests; NGOs; the US Congress and the preferences of US voters; systemic crises that challenge legitimacy; the economics profession and economic ideas; and development norms.

Chapter 3 then examines how the IMF literature theorizes why policy change occurs in the institution and develops hypotheses specifically on IMF LIDC reform. Two theoretical frameworks currently dominate studies of IMF change. Rationalist inspired approaches draw from PA modeling and focus primarily on how the dynamics between powerful states and the IMF management and staff produce conditions that facilitate or undermine policy reform. Constructivist approaches examine how changing economic ideas, notions of legitimacy, and shifting development norms influence policy choices and reform efforts in the IMF. Chapter 3 then explains why a historical structural approach that draws from the neo-Gramscian tradition serves as an important complement to rationalist and constructivist frameworks. An approach that conceptualizes IMF LIDC

© The Editor(s) (if applicable) and The Author(s) 2016
M. Hibben, *Poor States, Power and the Politics of IMF Reform*, International Political Economy Series,
DOI 10.1057/978-1-137-57750-4_3

reform as being interrelated with global social forces provides an analytical platform to examine how crisis points in contemporary globalizing capitalism shape the institution's policy choices toward its poorest member states. Chapter 3 concludes by studying how historical structural frameworks theorize LIDC change in the institution.

3.1 What Influences IMF Policy?

Contemporary mainstream IO and international political economy (IPE) scholarship focused on the IMF can be roughly divided into three main branches.[1] One branch, drawing from the logic of neo-realism, theorizes that the Fund's choices should reflect the interests of powerful states, particularly the USA. Reactions to this literature include studies on whether other powerful states and domestic actors impact IMF policy. The second and third branches dismiss realist conceptions of the Fund as an epiphenomenal extension of powerful state interests. A rationalist inspired branch draws from PA theory and argues that the IMF is an opportunistic entity that pursues its own self-interest within the constraints imposed on the institution by powerful states. A sociological branch draws from constructivist theory and focuses on how the IMF's institutional culture affects policymaking. It finds that the Fund's autonomy and power are derived from the selective expertise of its staff and the broad-based legitimacy it is granted. As with the research sparked by realist inspired scholarship on the IMF, the past decade has witnessed a series of studies that challenge and further develop sociological perspectives. I provide a brief overview of the literature, with the aim of synthesizing what variables impact IMF policy choices.

In regard to analyses on the influence of powerful states on the IMF, seminal contributions include those of Strom Thacker (1999) and Robert Barro and Jong Wha Lee (2005). Both studies demonstrate that countries who voted in line with US preferences in the UN were more likely to receive IMF loans. The notion that the USA and other powerful states 'politicize' Fund policy decisions is supported by evidence uncovered by Alex Dreher and Nathan Jensen (2007), Martin Edwards (2005), Grigore Pop-Eleches (2008), Randall Stone (2002, 2004, 2008), and Bessma Momani (2004). Dreher and Jensen found that states that voted in line with US preferences in the UN received IMF loans with less conditionality requirements. Pop-Eleches also studied UN voting patterns and demonstrated that states that vote in line with the USA were less likely to experience IMF program

interruption. Stone (2002, 2004) and Edwards focused on the relationship between US foreign aid and IMF policy implementation. These studies showed that countries with high levels of US foreign assistance enjoyed less rigorous IMF oversight of conditionality and fewer interruptions of lending programs. Stone (2008) found that the USA also selectively subverted normal standard operating procedures in the Fund when a strategic ally was in crisis. Otherwise, under 'normal' conditions, it allowed the managing director and staff to design and implement policy decisions.[2] This theme is reinforced in Momani's analysis of IMF Article IV Consultations with Egypt in the 1980s and 1990s. Here, the intervention of the USA watered down conditionality requirements during two periods of political upheaval to support the pro-Western Mubarak regime.

A series of studies in response to the unitary framing of state interests 'unpacked' the state and examined domestic sources of powerful state behavior in IMF decision making. Thomas Oatley and Jason Yackee (2004) found that countries heavily indebted to US commercial banks received larger IMF loans than other member states. Their analysis also showed no statistically significant relationship between IMF loan size and the debt states owed commercial banks based in Japan and the UK. This contribution reinforces the notion that the USA maintains a unique relationship relative to other powerful states in shaping Fund outcomes. J. Lawrence Broz and Michael Hawes (2006) examined the influence of US domestic interests on IMF policy through an analysis of voting patterns in the US Congress. Incorporating the logic of the Stopler-Samuelson Theorem into their analysis, they uncovered that legislators representing districts that benefit from international trade were likely to vote in favor of IMF quota increases.

Michael Breen (2013) provided evidence that the effect of domestic lobbying on IMF policy is not unique to the USA. Banking and export industries located in the UK, Germany, France, and Japan also successfully lobbied their governments to reduce conditionality requirements and stringency in IMF lending. Breen (2014) also uncovered a pattern of cooperation between the G-5 countries. Through 'favor trading', each of the G-5 states reciprocally protected the state with the greatest private exposure. Private interests play a central role in determining IMF conditionality according to Erica Gould (2003, 2006). The IMF is not able to fully finance lending arrangements to states with balance of payment crises. As such, 'supplementary financers' (private financial institutions, creditor states, and multilateral organizations) strongly influence conditionality requirements.

There is also evidence that borrowing countries shape policy choices and use IMF conditional lending to meet domestic policy objectives. James Vreeland (2003), drawing from Putnam's theory of two-level games, demonstrated that governments borrow from the IMF to implement politically unpopular economic reforms. Similar themes were also uncovered in a study of the European Union undertaken by Chris Rogers (2012). Here, Rogers showed that EU governments deflected blame for shifting the burden of adjustment from capital to labor through involvement in IMF programs. Teri Caraway et al. (2012) investigated the influence of individual citizens on IMF conditionality. Democratic countries with strong labor rights were more likely to respond to citizen demands and bargain for more lenient labor-related conditions in IMF loans. Rickard and Caraway (2014) also uncovered that country authorities used the 'threat' of impeding elections to negotiate for less stringent labor market conditions in Fund lending arrangements.

Rationalist and sociological inspired studies of the IMF also highlight a series of variables that impact policy choices. In rationalist studies, a 'public choice' strand focuses on how IMF staff manipulate PA dynamics to maximize autonomy and access to institutional resources (Vaubel, 1991). Mark Copelovitch (2010a, 2010b) draws from both PA modeling and bureaucratic arguments to explain why there are differences in IMF non-concessional lending amounts and conditionality requirements. For Copelovitch, two primary actors 'jointly determine' IMF policy and 'exercise partial, but not complete control over Fund lending decisions'. The five largest shareholders serve as the 'collective principal' that influences IMF staff decision making and look to minimize the risk of their domestic banking sectors. IMF staff look to maximize the likelihood of loans triggering additional capital flow to the country in question. The changing dynamics within global financial markets over the past several decades intersect with the preferences of these two actors to produce variations in both loan size and conditionality terms.

Sociological and constructivist approaches are rooted in the contributions of Michael Barnett and Martha Finnemore (1999, 2004). Barnett and Finnemore (1999: 707) highlight that IOs, including the IMF, have the autonomy and power to shape outcomes in global governance as they 'embody a form of authority, rational-legal authority, that modernity views as particularly legitimate and good'. If IO authority is broadly rooted in the social environment, then the power of IOs is further enhanced by bureaucratic expertise and a control of information. The theme of profes-

sional expertise is also front and center in studies of IMF policy formation. Jeffrey Chwieroth argues that a key constituent that impacts IMF policy is the economics profession and the belief systems therein, as economists are recognized as experts with authoritative knowledge. When ideological shifts occur in the profession, IMF staff responds to these broader changes in their policy choices. Chwieroth also highlights that IMF staff can influence policy choices since they are socially recognized as authorities and experts in the field of economics. Staff thus exhibit 'productive power' as they construct meaning and shape and define what policy choices are legitimate and realistically possible to pursue (Chwieroth 2010: 40–8).

If the IMF's power is derived in part from its socially constructed legitimacy, the breakdown of this legitimacy also is identified by constructivist scholars as a key variable that impacts IMF choices. As noted in Chap. 1, Jacqueline Best (2007, 2014) argues that the legitimacy of the IMF has been undermined by the Asian crisis and policy failures in LIDCs. Leonard Seabrooke (2007) contends that the post-Washington Consensus period has witnessed an expansion of what he terms the IMF's 'social constituency of legitimation'. Fallout from the structural adjustment lending controversy in the 1980s and the Asian crisis has produced a significant 'legitimacy gap' for the Fund. In response, the IMF is now focused on generating public support in member states. The Fund's increased transparency and participation in PRSPs, for instance, have been interpreted as a sign of growing sensitivity to the concerns of civil society. André Broome (2009) examines how NGOs influenced HIPC and HIPC II reform by challenging the expert authority of IMF policy analysis and reframing the debt issue in moral terms. Manuela Moschella (2010) finds that private market actors also play a part in granting emerging norms and subsequent policy directives legitimacy at the Fund. The lack of private support for the IMF sponsored SDDS initiative, for example, limited the success of the process of international data standardization.

In sum, the literature has established that a broad series of variables impact IMF policy choices. These include powerful states and the domestic interests therein; elites in poor and middle-income states; the IMF's managing director and the IMF staff; private commercial and financial interests; NGOs; the US Congress and the preferences of US voters; systemic crises that challenge legitimacy; the economics profession and economic ideas; and development norms. Given the focus of this project, it is necessary to develop analytical frameworks that engage specifically with processes of IMF LIDC policy change. In the next two sections,

I develop how rationalist and constructivist approaches theorize IMF LIDC reform and offer hypotheses derived from each framework relative to the cases studied in Chaps. 4, 5, and 6.

3.2 Theorizing IMF LIDC Reform: A Rationalist Approach

Rationalist approaches to the study of IO change draw primarily from PA theory. Key contributors to the development of this literature include Daniel Nielson, Michael Tierney, Darren Hawkings, David Lake, Mona Lyne, and Mark Copelovitch. PA models ground their analysis in the following two assumptions. First, as noted above, IOs are not simply manifestations of the preferences of powerful states in the international system.[3] Rather, they are entities in and of themselves and exhibit relative autonomy from powerful states. Despite political agency, IOs face constraints regarding policy direction, as they ultimately function on the conditional authority granted by states to perform tasks in the international system. In PA parlance, states are 'principals' that delegate authority to IOs through formal or informal 'contractual' agreements.[4] IOs are 'agents' that function within the constraints of conditional grants of authority. This dynamic sets up a fluid situation characterized by changing degrees of 'agency slack' and 'autonomy'. Agency slack refers to 'independent action by an agent that is undesired by the principal'. Autonomy is the range of potential independent action available to an agent after the principal has established mechanisms of control (Hawkins et al. 2006: 8).

PA theory maintains that the nature of the contractual relationship produces predictable patterns in institutional behavior and change. For the principal, the main concern is to formulate how to delegate authority without losing control. Agents are opportunistic and commonly engage in several forms of behavior that increase slack and autonomy. Most common are processes that hide information or involve taking action behind the back of the principal (Nielson and Tierney 2003: 246). States reduce 'agency slippage' through five primary mechanisms. First, they formally determine what authority has been delegated to the IO and hold the power to alter contracted agreements. Second, principals control the selection, hiring, and firing of IO management. Third, principals also can monitor agents directly or through third parties. Fourth, principals can structure IOs in a manner that keeps individuals in the institution in check. This is

accomplished through the creation of institutional checks and balances or by empowering more than one agent to handle the same mandate (adjustment lending in both the World Bank and IMF, for example). Finally, states can punish or reward the IO. In the case of the IMF, states ultimately can withhold quota resources (Hawkins et al. 2006: 26–30).

PA models also analyze the form of such relationships. At its simplest, PA models involve a single principal delegating to a single agent (see Fig. 3.1). As developed by Lyne et al. (2006: 43–5), the delegation of authority to agents often involves a principal made up of multiple actors (a 'collective principal') or a situation where a single agent has more than one contract with organizationally distinct principals ('multiple principals'). All else being equal, PA models predict greater agency slack and autonomy as the number of principals increase. Room for agents to shirk principal demands also is predicted to decrease as divergence in the preferences of principals ('preference heterogeneity') is reduced.

In addition, PA models focus on what are termed 'proximate' principals when predicting IO change (see Fig. 3.2). In the delegation chain visualized here for the IMF, the proximate principal is the entity with the closest formal authority to the agent in question. While pressure for change may come from actors (voters, NGOs) several places removed in the delegation chain ('distal principals'), Fund management and staff will most likely ignore these demands and instead focus on signals from their proximate principal: 'Because staff members of IOs are not rewarded, or may even be punished if they respond too vigorously to stimuli other than the demands of their proximate principal, they should tend to ignore or discount

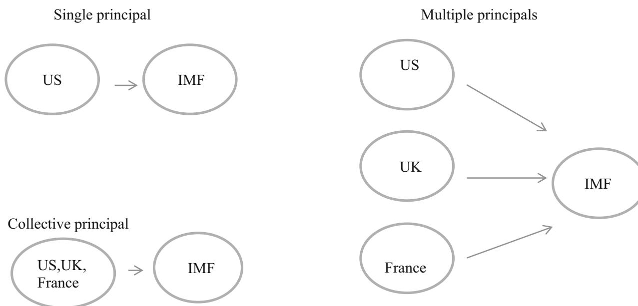


Fig. 3.1 Types of PA relationships (*Source*: Lyne et al. (2006: 45))

demands made by interest groups in given member countries' (Nielson and Tierney 2003: 250). PA models thus predict the occurrence of little change due to NGO 'street heat' or direct lobbying of the IMF. Rather, NGO pressure on states would prove more effective in producing reform in policy direction.

For the purposes of this study, I focus on two levels of delegation (see Fig. 3.3): state to Fund management (level 1) and management to staff (level 2). At level 1, powerful states act as the collective principal. Member states of the Fund delegate authority to the 24 member executive board, which oversees the day-to-day operations of the Fund. As noted in Chap. 2, each executive director has different weighted voting power based on the quota size of the state(s) represented. The USA, Germany, UK, Japan, and France each have individual representatives on the executive board and the largest weighed voting power since 1945. The decisions of the executive board are mainly finalized through consensus rather than formal voting, and require coalitions built around the support of the above shareholders, particularly the USA (Van Houtven 2002: 23–4). Along with the greatest voting share, the USA differs from other powerful

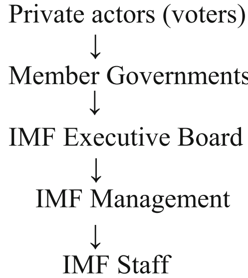


Fig. 3.2 IMF chain of delegation (*Source*: Hibben (2015: 206))

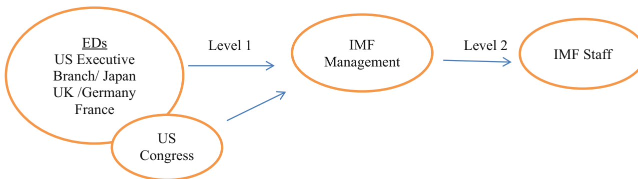


Fig. 3.3 Principals at two levels of delegation chain (*Source*: Hibben (2015: 205))

states in its presidential government design. The model therefore includes the US Congress as an additional principal that can contract with Fund management.[5]

The US Congress confirms the US executive director appointed by the US president and must approve any quota increase to the IMF. The US Congress also must consent to any supplemental lending to the IMF via the GAB, the NAB, and the sale of IMF gold resources. In addition, the US Congress passes mandates that direct the secretary of the treasury to instruct the US executive director to pursue specific policy objectives:

> Policy mandates seek to foster or advocate certain policies at the IMF by directing Treasury to instruct the U.S. Executive Director to use his or her "voice," "vote," or both, on behalf of the United States at the Executive Board to bring about a policy change at the IMF. For example, the U.S. Executive Director is directed to encourage the IMF to adopt internationally recognized worker rights for borrowing countries. Directed vote mandates are more prescriptive, in that they instruct the United States to "oppose" or "vote against" loans or other IMF assistance to particular countries or categories of countries. (Government Accountability Office 2006: 2–3)

As of 2005, the US Government Accountability Office had identified 70 legislative mandates passed by Congress since 1945.

In sum, we can derive the following hypotheses from rationalist literature concerning IMF LIDC reform:

i. If the pressure for LIDC policy change comes from staff and runs counter to state or management preferences, increased or decreased heterogeneity in principal preferences strengthens or weakens the ability of staff to shift policy direction.
ii. If the pressure for LIDC policy change comes from state principal demands on the Fund and runs counter to internal staff and management interests, increased or decreased heterogeneity in state preferences weakens or strengthens the ability of management and staff to shift policy direction.
iii. LIDC policy change only occurs due to proximate principal pressure. Direct NGO or citizen pressure on the Fund ('leapfrogging') will not produce LIDC policy change.

3.3 Theorizing IMF LIDC Reform: A Constructivist Approach

Constructivists argue that the human action is driven by the 'logic of appropriateness'. Humans, as inherently social beings, frame their decisions within the context of identity and legitimacy, rather than a cost-benefit analyses of utility maximization. These socially constructed understandings of the world form the primary structure within which humans, subsequent state behavior, and the international system are embedded. Despite the subjectivity inherent to a socially constructed world, a majority of IMF studies that draw from the constructivist tradition adopt a positivist epistemological and methodological position. Systematic analysis of the institution can uncover how changing patterns of identity formation, and shifts in norms and ideas, explain social and political change.[6]

Constructivists also frame their study of change as one that recognizes exogenous, systemic factors, but is consciously and primarily focused on the internal dynamics found in the IO being studied. The agency of the individuals within an IO also is constituted and influenced by institution specific organizational culture. As summarized by Barnett and Finnemore:

> IOs…are established to accomplish certain tasks. To do this, they develop general consensus around their understandings of their core mission and the functions of their organization; goals to be pursued; basic means to pursue these goals, and some way to measure results. Thus organizations create a shared discourse, symbols, and values for their staff. These shared elements, in turn, generate a group identity for the organization and structure interactions among those within it. (Barnett and Finnemore 2004: 19)

The maintenance and reproduction of organizational culture and identity is not a passive process. Staff members internalize particular frames of reference and also socialize new employees to adopt particular norms and routines within the bureaucracy. The organizational culture, therefore, is deeply embedded in the institution and serves as the frame of reference through which events and signals from the external and internal environment are cognitively processed.

The established organizational culture of an IO and its subsequent policy direction is not likely to change quickly or easily. As noted by Momani (2007a: 147), several studies that draw from organizational theory con-

clude that individuals in bureaucracies have a default position that resists change: 'Organizational theorists contend that individuals resist change because they fear the unknown, have selective attention to and retention of new information, prefer habit and routine, need the security of the known, and feel threatened by change.' Resistance to reform manifests itself at the organizational level 'because there is a lack of trust, differing perceptions and goals, social disruption with change, a limitation of resources to devote to change, and most importantly change requires a change in the organizational culture'. Despite inertia against radical or swift reform efforts, constructivists point out that IOs are also never static entities. Vetterlein (2010: 98) notes four prominent features of IOs that make them subject to change over time. These include shifting relationships with powerful state principals; the fact that the institution's original mission evolves due to changing realities in the international system; modifications in the institution's formal organizational structure; and less observable alterations in the institution's informal organizational culture.

Several variables that can cause shifts in the institution's internal culture and policy choices are also identified. Foremost are the 'norm entrepreneurs' within the institution. Individuals pushing a new idea will command the greatest influence if they occupy a position within the bureaucracy that (1) has access to management, (2) can veto policy initiatives, and (3) has access to resources. Staff and management also know how to leverage the organization's bureaucracy, promoting new beliefs that can potentially alter the organization's culture and practices (Chwieroth 2008a: 492–4). These individuals promote their agenda through three primary strategies. First, they interpret past experience through assumptions and worldviews that will support their ideas and actively search for evidence that will reinforce their beliefs. Second, these actors may also engage in small-scale experiments to test their assumptions (Levy 1994: 293–4). In the IMF, for example, this dynamics is seen when staff circulate position papers or articles published in *Finance and Development* that explore and test ideas concerning appropriate policy response. Third, individuals that push for change will also engage strategically in ideological battles to win support for their ideas (Nielson et al. 2006: 114).

As outlined by Chwieroth (2010: 51–5), the ultimate success of a proposed reform is also tied to the form and depth of change advocated. When staff interpret new information and events that do not match expected outcomes, 'they tend to change their beliefs about legitimate means in an ad hoc fashion rather than changing their beliefs about legitimate goals'.

Shifts in thinking and subsequent policy choice reform are therefore most likely to occur due to 'adaptation'. Defined as a change in beliefs about the desirable means to be used to reach a policy outcome, this is manifested in various forms including 'changes in organizational language, structures, symbols, and small modifications of behavior'. Adaptation differs from more fundamental processes of 'learning'. Rather than questioning the efficacy of the policy process to achieve a certain outcome, learning challenges policy goals. Given that this is a deeper process of change that can fundamentally challenge organizational culture, policy shift occurs less frequently through processes of learning. Successful reform also hinges in part on the degree of discursive influence individuals hold. When senior staff or authorities picked by the management advocate for change, they encounter less resistance from junior or less renowned colleagues. The individual's position in the bureaucracy also matters. Staff situated in leadership positions more easily lobby management, initiate or block potential reforms, and control information (Chwieroth 2008a: 494). Specific to IMF LIDC policy reform, it is expected that senior staff found in the African, SPR, and research departments are key gatekeepers that influence the potential success or failure of reform efforts.

Park and Vetterlein (2010a: 3–26) also present a framework for the study of Fund reform through the concept of a 'norm cycle'. For Park and Vetterlein, norms are not static constructs that these institutions either adopt or reject. Rather, policy norms are reflexive and represent shifting processes that shape the collective understanding of various actors both within and outside the institution of how the world works. Park and Vetterlein identify three points in the life of a norm cycle: norm emergence, norm stabilization, and norm contestation. A norm gains traction and stabilizes only if it is first granted legitimacy. The degree of legitimacy granted to a new norm, and the probability that it will spark subsequent policy reform, is predicted by examining three constitutive components. The norm has 'formal validity' if it has been integrated into 'the IO's constitution or Articles of Agreement, its operational strategy, and/or is included in Fund…loan contracts'. More informally, a norm has 'social recognition' when it is accepted by actors as the right thing to do. At the policy level, a norm has 'cultural validity' when expressed in programs at the local level. Once accepted as legitimate, patterns of behavior around the norm emerge, and are reinforced through new policies tied to the broad-based shift in thinking. Over time, the norm then becomes institutionalized in the organizational culture.

While the process of internalizing norms and ideas into individual and collective identities produces some form of stability concerning how the organization thinks, they are never fully static or uncontested. The efforts of internal norm entrepreneurs and external systematic shifts produce new experiences and interpretations that challenge organizational culture, policy practices, and even more fundamental beliefs about legitimacy. Park and Vetterlein identify three triggers that undermine legitimacy. First, an ideological space for reform emerges when there is broad-based agreement among elites that a particular economic or policy program has failed. Second, similar to findings from organizational theory, an unexpected external shock can challenge assumptions that have been taken for granted until then. Third, 'mass condemnation' accompanied by an acknowledgment of past policy failure and an external shock can facilitate the acceptance of new ideas and approaches. Once a policy position norm or idea comes under question in this scenario, staff, management, NGOs, or states use mechanisms of persuasion, arguing, shaming, and negotiation to push for reform. Moschella offers an additional predictive framework for Fund policy shifts based on the aforementioned social constituencies of legitimation. Given the importance of social acceptance for particular norms and ideas to take root and influence the production and maintenance of policy directives, we can expect change to occur when gaps open between 'the institutionalization of specific economic ideas in the Fund's policies' and 'the acceptance of these policies by the actors of its social constituencies of legitimation' (Moschella 2010: 27).

Constructivist studies of IMF change maintain that the primary group that influences the legitimacy of a policy position is the economics profession. As outlined by Chwieroth (2010: 60)

> Cycles, trends, and shifts in economic theory shape the content of [staff] expertise by helping to determine what constitutes an economic problem and how such problems are best solved. When the staff members approach their tasks, they necessarily come to rely on the content of their training to develop specialized knowledge and to form judgments about policy.

The five major economic schools that have shaped IMF policy thinking include: Keynesianism, the neoclassical synthesis, monetarism, new classical economics, and New Keynesianism (see Table 3.1).

Keynesianism emerged as a dominant economic theory in the 1930s and held sway until the mid-1950s. It provided the intellectual foundation for those sympathetic to policies that enforced countercyclical government intervention and high regulation of financial and international

capital markets (Keynes 1936; Best 2004: 383–404). Keynesian theory was most influential in early IMF policy. This was most strongly expressed in the initial support extended to capital controls. While the Bretton Woods framework reduced international volatility, capital controls gave states the ability to implement countercyclical monetary and fiscal measures to support full employment policies. Keynesian inspired ideas are also expressed in the Fund's framework of demand management in relation to balance of payment disequilibria. Components of the Polak model (see Chap. 2), for example, are rooted in the Keynesian assumption that balance of payment crises reflect imbalances in aggregate demand and supply, and that multiple policy levers including monetary and fiscal intervention should be used to restore equilibrium (Clift and Tommilson 2011: 11).

Contemporary critics of the IMF, including Joseph Stiglitz, argue that the institution moved away from its Keynesian roots following the 1982 Mexican debt crisis until the 2008 global financial crisis. For Stiglitz, the Fund was guilty of adopting 'the pre-Keynesian position of fiscal austerity in the face of a downturn…which almost always entail contractionary policies leading to recessions or worse' (Stiglitz 2002: 38). Several staff members interviewed for this project, in contrast, argued that Keynesianism has always influenced Fund thinking, even during the Washington Consensus era:

> Public perceptions have sometimes put the IMF in an ideological corner. I don't think we had a dramatically different view [during the 1980s and 1990s]. You have to remember that we have always been a Keynesian institution. We are an institution of fiscal activists.[7]

Other staff members and executive directors noted that the post-2008 period witnessed a greater acceptance of Keynesian thinking in the economics profession and the institution: 'I think we started out as a Keynesian institution in the 1940s and 1950s and then moved quite a lot to the Chicago school, free market side of things and now it's a little more middle of the road.'[8]

The diversity of opinion among current IMF LIDC staff with regard to when and how Keynesian thinking influenced the Fund is partially explained by the influence of the neoclassical synthesis. As outlined by Chwieroth (2010: 74), the main economic debate in the late 1950s and 1960s was not between Keynesianism and the emerging monetarist

Table 3.1 Five economic schools of thought

School of thought	*Major themes*	*Appropriate policy response*	*Most influential years in the IMF*
Keynesianism	Critique of the 'self-correcting' logic of classical economics Market failures due to inadequate levels of investment, consumption, and self-reinforcing, subjective conceptions about the future	Expansionary monetary policy in moderate recessions Aggressive fiscal policy during more severe crises Public investment Redistribution Capital controls	1945–early 1960s 2008–present?
Neoclassical synthesis	Merges aspects of Keynesianism and classical theory Markets are not self-correcting in the short term, but were generally correcting in the long term	Targeted and short-term monetary and fiscal intervention to counter recessionary periods Permanent government intervention discouraged Capital control liberalization	1960s–late 1970s 2008–present?
Monetarism	Money supply is the primary variable that drives economic outcomes Money supply neutral in long term and non-neutral in short term Free of government intervention, markets are self-correcting in long term	Limit money supply to match underlying fundamentals Avoid expansionary monetary and fiscal policy Avoid market distortion in labor markets Capital control liberalization	Late 1960s–late 1980s

(*continued*)

Table 3.1 (continued)

School of thought	*Major themes*	*Appropriate policy response*	*Most influential years in the IMF*
New classical economics	Micro-level processes explain macro-level outcomes Critique of monetarist assumptions of short-term market inefficiency Free of government intervention, ‘real time’ adjustments by utility maximizing actors guarantees efficient markets in the short and long term	Avoid expansionary monetary and fiscal policy Monetary policy as a tool to combat inflation	Late 1970s–2008
New Keynesianism	Micro-level processes explain macro-level outcomes including involuntary unemployment Critique of new classical economics’ assumption of perfect markets. Imperfect markets are the rule, not the exception Market not efficient in the short term due to menu costs, efficiency wages, etc.	Monetary and fiscal policy as instruments to correct market failure. More effective if used in short term Inflation targeting as primary policy goal of central banks Targeted policy to reduce market imperfections	Mid-1980s–2008

school, but rather an internal Keynesian divide. One group, consisting primarily of economists based at Cambridge University, sought to preserve and build on a strict interpretation of Keynesian concepts. These self-described 'post-Keynesians' argued for the maintenance and expansion of capital controls and a robust commitment to countercyclical full employment policies. Several American economists, including Paul Samuelson and James Tobin (also known as 'neo-Keynesians'), instead argued for a rethinking of Keynesianism within a classical framework. Samuelson and others pushed for a 'neoclassical synthesis' that combined aspects of Keynesian and classical theory. This emerged as the dominant economic school of thought until the late 1970s.

Proponents of the neoclassical synthesis theory rejected classical assumptions that economies self-correct and argued, like Keynes, that countercyclical government interventions are necessary to stimulate recessed economies and return them to their full productive capacity. Proponents of neoclassical synthesis, however, diverged from Keynesianism in several key areas. While Keynesianism maintained that markets are inherently unstable and are driven by an irrational use of information, neoclassical synthesis theory differentiates between short-term and long-term market dynamics. In the long term, markets are considered efficient and equilibrating. Long-term efficiency, however, is undermined by short-term market errors (asymmetric information and price stickiness, for example). At the IMF, this translated into an emphasis on targeted, short-term fiscal and monetary response rather than a focus on a more permanent regime of government intervention. The neoclassical synthesis and Fund policy also distanced itself from Keynes' support of capital controls. Drawing back to liberal classical assumptions, both long- and short-term speculative capital flows were not considered destabilizing, but rather natural equilibrating factors in an open trading system.

In what Jacqueline Best (2004) describes as the 'hollowing out' of Keynesianism, the dismissal of Keynes' idea that irrational behavior influences markets changed the way macroeconomic failures were seen. They were reframed as essentially technical, short-term problems that could be modeled and ultimately corrected. The ascendency of this interpretation of macroeconomics helped reinforce a technocratic, economistic norm at the Fund that remains firmly embedded in the institution (see Chap. 2). After interviewing several IMF staff, it becomes clear that, today, ideas derived from neoclassical synthesis is what is commonly understood to be Keynesianism. Fiscal interventions that 'work' in the short run are

the primary concern of the Fund, rather than policies that accept the long-term instability and irrationality of modern capitalist economies. As developed further in Chaps. 5 and 6, Keynesianism and the neoclassical synthesis were supplanted by more conservative macroeconomic schools of thinking by the early 1980s until the 2008 crisis. Ideas derived from monetarism, neoclassical economics, and New Keynesianism formed a 'New Consensus' that dismissed Keynesian inspired monetary and fiscal policies and reinforced liberal market structural adjustment policies.

Drawing from constructivist and sociological organizational frameworks, the following hypotheses are derived:

i. A strategically situated 'norm entrepreneur' is a necessary component for LIDC policy reform, when the reform in question challenges the Fund's institutional culture.
ii. If a policy reform is framed as addressing policy implementation (adaptation), rather than as a fundamental challenge to Fund thinking on macroeconomic policy (learning), the probability of the reform being implemented in LIDC policy choices increases.
iii. A 'crisis of legitimacy' that challenges macroeconomic and development ideas or norms is necessary for substantive LIDC policy change.
iv. The probability of LIDC policy reform is greatest when economic ideas or norms institutionalized within the Fund are questioned by the broader epistemic community of development economists.

3.4 Theorizing IMF LIDC Reform: A Historical Structural Approach

Constructivists including Barnett and Finnemore (2004: 19–20) draw from dialectic thinking when explaining how ideas and notions of social legitimacy impact institutional change. For Barnett and Finnemore, norms, individuals, and institutional cultures are internally related and mutually constituted entities: 'Bureaucratic culture guides action but does not determine it. The rules and routines of a bureaucracy shape bureaucrats' views of the world, define their social tasks, shape their interests, and orient them in similar way toward the world.' Organizational and bureaucratic culture, likewise, is conceptualized as being constituted and implicitly shaped by these same norms and individuals: '[T]he relationship between bureaucrats and rules is mutually constitutive and dynamic. Bureaucrats create

rules that shape future action, but action, in turn, shapes the evolution and content of rules.' Alexander Wendt (1987: 359), along similar lines, describes the internal relation between structure and agency as follows: 'Just as social structures are ontologically dependent upon and therefore constituted by the practices and self-understandings of agents, the causal powers and interests of those agents, in their own turn, are constituted and therefore explained by structures.'

While these prominent constructivists present a framework that examines the constitutive nature of structure and agency, the current emphasis on studying multilateral institutional 'change from within' contradicts at some level a dialectical conceptualization of the IMF. Specifically, many constructivist IO scholars, in their analyses, separate the multilateral institution in question from social forces and power relations 'out there' as a means to more precisely capture internal dynamics that impact reform. Chwieroth (2008a: 491) is perhaps the most adamant in this respect as he focuses primarily on 'the role of personnel and internal institutional configurations', rather the dynamics above or below the IO in question.

The theoretical and methodological practice of bracketing off processes that occur within the IMF from broad-based social forces 'out there' highlights the tradeoff between parsimonious and more complex approaches to IO change. Like rationalist inspired PA analysis, the relative simplicity of positivist constructivist approaches allows us to cut through the multiple and often contradictory layers of social reality, identify key potential causal variables, and test if the patterns uncovered can be applied in a predictive capacity. However, this framework is not conceptually equipped to engage with how and why particular processes of ideational change and legitimization are interrelated with broader social structures and power relations in the post-Washington Consensus period. For example, mainstream constructivist approaches focused solely on 'change from within' can ignore how factors tied to the rise of transnationalizing capitalism and the crises therein impact Fund policy choices. Rationalist and mainstream constructivist approaches do not directly address the power dynamics tied to globalizing capitalism and its effects on IMF LIDC policy. In response, I also integrate a historical structural framework into this study of IMF LIDC reform. Initially developed by Robert Cox, a historical structural framework draws from elements of Gramscian theory and has been embraced by the neo-Gramscian school of international political economy.[9]

The rationalist and constructivist approaches outlined above fall into what Cox categorizes as 'problem-solving' theory. Problem-solving theory is designed to study and improve outcomes in a particular social

and political order. Cox (1981: 128–30) argues that problem-solving approaches 'take the world as they find it' and analytically separate the entity under study from deeper power relations and social forces. Ontologically, this lends itself to an atomistic understanding of the world. Human agents and their behavior are 'reduced to their outward phenomenal aspects' and historic entities such as the IMF are conceptualized and studied as independent objects that exist 'out there' in a broadly stable (a 'continuing present') social and political order underwritten by general patterns or laws that can be elucidated through positivist methodology. Cox highlights two analytical strengths that underlie political analysis rooted in problem-solving theory. It sets clear limits on the potential variables that can impact the phenomena under study. This facilitates precise and targeted examination. By invoking the *ceteris paribus* assumption, it is also able to identify patterns of causality between variables and tease out how these patterns can be applied in a predictive capacity in a given social and political order.

Critical theory differs in its understanding and approach in several key respects. It is an openly normative framework designed to systematically evaluate ('historicize') the power structures and institutional arrangements of an existing world order and analyze the possibilities of alternative futures and how they might come into effect. Given its focus on historical social processes, it rejects an essentialist understanding of human nature and the notion that subsequent political and social arrangements (social relations of production, the state, institutions, and the interstate system, for example) have inherent or timeless qualities. Rather, society is conceptualized as consisting of humans who are embedded in historically specific social structures and institutions that simultaneously shape—and are shaped—by their actions. While individual human beings are influenced by historically specific social structures, this does not determine in a mechanical fashion their ways of thinking and acting. All humans have individualized processes for interpreting the world they inhabit and thus have agency. This tension between individual agency and a broader structural intersubjective understanding of the world thus serves as the primary cause of historical change (Cox 1996: 66).

This social relational approach is also extended to conceptions of the state. States are not sovereign entities with preset and timeless qualities. Nor are they the sole site of political activity. States are instead conceptualized as time specific institutionalized expressions of the intersection of local and global social forces (Cox 1981: 141; Rupert 1990: 432).

Cox describes the state as a state-society complex underwritten by historical blocs. A historic bloc can be described as the configuration of social forces that serve as the foundation for a particular state form. This is conceptualized as a dialectic where interacting and mutually constituted subjective (ideology, for example) and objective elements (physical means of production) form a complex of social relations that is expressed in the form and function of the state.[10] To define the state-society complex, Cox draws from Gramsci's analysis of the Western capitalist state. For Gramsci, the Western capitalist state is constituted by both the coercive apparatus of government and a highly developed 'private' sphere of civil society ('extended state') critical to the formation and reproduction of historic blocs and hegemony (Gramsci 1971: 262–3).[11]

The dynamics surrounding the interplay between ideas and power relations are introduced into the framework of historical structure through a discussion on institutions and hegemony. Institutions are operationalized as expressions of ideational and material forces that subsequently reinforce prevailing power relations. Here, Cox adopts Gramsci's conception of hegemony to capture the critical role that institutions play in perpetuating a historical structure. Hegemony is conceptualized as a form of domination where power relations primarily take on a consensual form and subsequently lower the coercive aspects of rule.[12] Institutions such as the IMF can serve as critical tools for the formation and reproduction of hegemony in several respects. First, as institutions are ostensibly designed to serve general interests rather than the interests of ruling groups, they increase the legitimacy of the status quo (Bøås and McNeill 2003: 4–6). Institutions also reinforce the authority of powerful groups by framing how particular issues are understood and managed. This is particularly important when potentially counterhegemonic ideas challenge power structures. Here, institutions including the IMF, can absorb and reframe these ideas in a form that is consistent with hegemonic belief systems and doctrine (Cox 1983: 166–7). As is the case with material and ideational forces, the behavior of institutions is not determined in any strict sense by ruling groups. They can 'take on their own life' and facilitate the growth of opposing tendencies that challenge and transform historical structures and subsequent world orders (Cox 1981: 137).

In this context, civil society has within it multiple outlets (education, the media, and religious institutions, for example) through which the ideological frames of common culture are formed. This 'common sense' produces a base level of cohesion and stability among the multiple and

often contradictory elements of a historic bloc. Intellectuals tied to the dominant class ('organic intellectuals') also play a prominent role in the production of hegemony in civil society as they 'perform the function of developing and sustaining the mental images, technologies, and organizations that bind together the members of a class and of a historic bloc into a common identity' (Cox 1983: 168). Under conditions of hegemony, we can expect that ideology, power relations, and prominent institutions are not perceived as representing the interests of a particular class, but rather promote 'buying-in' from subordinate groups. This dynamic will serve to reproduce cohesive rule and reduce challenges that undermine structures of power and the interests of the leading class.

If hegemony can be established at the national level, Cox contends that this can also expand and operate 'upwards' and 'outwards' to the global level. Based on an analysis of the past two centuries, this involves several components: (1) the emergence of a preeminent state power and its historic bloc that facilitates the expansion of a new social relation of production (the US model of capitalism in the post-World War II period, for example) and the interests of its leading class on a world scale; (2) construction of a world order that is universal in conception; and (3) opportunities for hegemony to operate in globally formed expressions of civil society that support the dominant mode of production and historic bloc. As summarized by Cox, world hegemony is best conceptualized as

> A social structure, an economic structure, and a political structure; and it cannot be simply one of these things but must be all three. World hegemony, furthermore, is expressed in universal norms, institutions and mechanisms which lay down general rules of behavior for states and for those forces in civil society that act across national boundaries, rules that support the dominant mode of production. (Cox 1983: 172)

While the dynamics found in hegemonic periods lower coercive rule and increase stability, they are never uncontested or permanent in character. Shifts in productive relations and state-society complexes, a breakdown of class coalition formations in a historic bloc, or counterhegemonic social and political movements, can undermine hegemony in historical structures. Non-hegemonic world orders are characterized by a lack of ideological cohesiveness, increased conflict, and more overt use of coercive force by powerful entities. In the capitalist era, Cox identifies the 'era of rival imperialisms' (1873–1945) and the current period of globalization (1965–present) as non-hegemonic in character. This stands in contrast to

the hegemonic world orders of mid-nineteenth-century *pax Britannica* and the post-World War II US-led Bretton Woods era (1945–1965).

With regard to the IMF, historical structural studies theorize that the institution's policy choices as interrelated to four themes that have emerged over the past four decades: the shift from a world economy made up of linked national economies to a globalized economy characterized by the transnationalization of production and accumulation; the dismantling of Keynesian welfare state forms in the global North and ISI state forms in the global South; the rise of a 'globalist' historic bloc dominated by an emerging transnational capitalist class that has been unsuccessful in its attempts to build a hegemonic world order; new counter-tendencies that challenge this non-hegemonic order.

For neo-Gramscians including Arne Rückert, Morten Bøås, Desmond McNeill, and William Robinson, the crises of the late 1990s and 2008–2009 serve as the contextual foundation to explain post-Washington Consensus policy change. Specific to the IMF, the HIPC and HIPC II initiatives, the PRGF, and the post-2008 ECF, RCF, and SCF reforms are expressions of an emerging 'inclusive neoliberalism' ultimately designed to undermine the growing resistance and challenges facing the globalist bloc and the power structures of transnationalizing capitalism. Debt relief through the HIPC and HIPC II initiatives, 'pro-poor' initiatives introduced by the PRGF, and Keynesian inspired policies that have emerged with the ECF, RCF, and SCF, are cited as examples of the globalist bloc using the tools of global governance to help 'attenuate some of the sharpest social contradictions of global capitalism' in the interests of assuring 'long term stability and reproduction' of the current historical structure (Robinson 2004: 163). The growing emphasis on increased stakeholder input, as seen in the PRSP initiative, is also seen as a sign that global elites are interested in building a more consensual and hegemonic twenty-first-century world order.

Drawing from neo-Gramscian approaches focused on multilateral change, we can evaluate the validity of the following in our comparative case studies in Chaps. 4, 5, and 6:

i. In response to the crises of the late 1990s and 2008–2009 and increased resistance to globalizing capitalism, IMF LIDC reform is driven by a conscious decision made by global elites to build a more inclusive form of capitalism through the use of global governance institutions.

3.5 Conclusion

Three distinct theoretical frameworks offer plausible causal stories concerning why the IMF underwent LIDC reform. In this sense, the spirit of this project and the conclusions reached about research that is open to multiple ontologies falls in line with recent calls for 'analytic eclecticism' in middle-range IR analysis. As outlined by Rudra Sil and Peter Katzenstein:

> Analytical eclecticism…trains its sights on connections and interactions among a wide range of causal forces normally analyzed in isolation from one another. This does not guarantee consensus on forecasts or prescriptions that can assist policymakers and lay actors. It does, however, encourage a wider, more open-ended conversation about how the different causal forces identified by proponents of different paradigms might coexist as part of a more complex, yet useable analytic framework that helps in making sense of concrete social phenomena. (Sil and Katzenstein 2010: 12–3)

As seen in the following chapters, the use of these three theoretical frameworks also involves engagement at three levels of analysis. At the macro historical structural level, the IMF LIDC reform in question is contextualized as the interrelated by-product of broad-based shifting social forces, particularly those tied to changes in contemporary capitalist social structures. Middle-level analysis examines how the demands and pressure from entities (states, NGOs, and the World Bank, for example) and economic ideas impact IMF LIDC reform. Micro-level analysis focuses on the actions of individuals within the IMF (staff, the managing director, executive directors) and the interaction between them.

Notes

1. I draw on this typology of IMF literature from Erica Gould (2006: 5–13).
2. See also Steinwand and Stone (2008).
3. Nielson and Tierney (2003: 243–4), for example, argue that realist frameworks simply ignore IOs or argue that they are best thought of as direct extensions of powerful state preferences in the international system. PA proponents are also critical of neoliberal institutional understandings of state agency. Though they see IOs as important actors in lowering transaction costs and producing internal cohesion between states, neoliberal institutionalists historically have conceptualized IOs as reactive and unable to produce policy independent and outside the will of member states.

4. Contracts in this context are defined as 'self-enforcing agreements that define the terms of the relationship between the two parties'. See Hawkins et al. (2006: 7).
5. This model is drawn from Nielson and Tierney's conception of the PA relationship between the USA and World Bank. The authors also note that divided power between legislative and executive branches also occurs in France during periods of cohabitation. See Nielson and Tierney (2003: 255).
6. As outlined by Jeffrey Checkel, there is an epistemological division between 'conventional' and 'interpretive' constructivists. Conventional IR constructivists, including Alexander Wendt, John Ruggie, Peter Katzenstein, and Martha Finnemore, are epistemological positivists. While the world is socially constructed, observers can systematically study this subjective reality and uncover causal patterns. Interpretive constructivists, including Ted Hopf and Thomas Bankoff, reject positivist assumptions about how best to study a socially constructed world. Rather than focusing on how norms and ideas cause changes in the international system, interpretive constructivists instead study how particular identities and norms are formed in the first instance. Checkel describes this as answering 'how possible' questions. See Checkel (2007: 58).
7. Author interview with Fund staff member from the African department, Washington, DC, September 2011.
8. Author interview with Fund staff member from APD, Washington, DC, September 2011.
9. Gramsci, leader of the Italian Communist Party from 1921 to 1927, was imprisoned under Mussolini's regime from 1929 to 1935. Cox and neo-Gramscians draw extensively from his writings.
10. Mark Rupert (1995: 443) describes an historic bloc as follows: 'In understanding Gramsci, it is essential to grasp that a historic bloc is more than a simple alliance of classes or class factions: it encompasses both objective and subjective aspects of a particular social formation uniting in historically specific ways political, cultural, and economic factors into a complex, politically contestable, and dynamic ensemble of social relations.'
11. Gramsci (1971: 262–3) defines the state follows: 'For it should be noted that the general notion of state includes elements which need to be referred back to the notion of civil society (in the sense that one might say that state = political society + civil society, in other words hegemony protected by the armor of coercion).'
12. Gramsci, studying late nineteenth- and early twentieth-century state forms in Western capitalist societies, argued that the political power of ruling classes was reinforced primarily through multiple institutions and relationships in civil society, rather than through direct control and the use of coercive state

strategies. Described as hegemony, this form of class rule occurs when consensual forms of power between dominant and subordinate groups, rather than overt or direct coercion via the state, are primary. For further discussion of Gramscian conceptions of hegemony, see Adamson (1980: 169–79) and Thomas (1994: 143–64).

Bibliography

Adamson, W. 1980. *Hegemony and revolution: A study of Antonio Gramsci's political and cultural theory*. Berkeley, California: University of California Press.

Barnett, M., and M. Finnemore. 1999. The politics, power, and pathologies of international organizations. *International Organization* 53(4): 699–732.

Barnett, M., and M. Finnemore. 2004. *Rules for the world: International organizations in global politics*. Ithaca: Cornell University Press.

Barnett, M., and M. Finnemore. 2005. The power of liberal international organization. In *Power in global governance,* eds. Barnett, M., and R. Duvall, 161–175. Cambridge: Cambridge University Press.

Best, J. 2004. Hollowing out Keynesian norms: How the search for a technical fix undermined the Bretton Woods regime. *Review of International Studies* 30(3): 383–404.

Best, J. 2007. Legitimacy dilemmas: The IMF's pursuit of country ownership. *Third World Quarterly* 28(3): 469–488.

Best, J. 2014. *Governing failure: Provisional expertise and the transformation of global development finance*. Cambridge: Cambridge University Press.

Bøås, M., and D. McNeill. 2003. *Multilateral institutions: A critical introduction*. London: Pluto Press.

Breen, M. 2013. *The politics of IMF lending*. Basingstoke: Palgrave Macmillan.

Breen, M. 2014. IMF conditionality and the economic exposure of its shareholders. *European Journal of International Relations* 20(2): 416–436.

Broome, A. 2009. When do NGOs matter? Activist organizations as a source of change in the international debt regime. *Global Society* 23(1): 59–78.

Broz, J.L., and M. Hawes. 2006. Congressional politics of financing the International Monetary Fund. *International Organization* 2: 367–399.

Checkel, J. 2007. Constructivism and EU politics. In *Handbook of European Union politics*, ed. K. Jørgenson, M. Pollack, and B. Rosamond, 57–67. London: Sage Publications.

Chwieroth, J. 2008a. Organizational change 'from within': Exploring the World Bank's early lending practices. *Review of International Political Economy* 15(4): 481–505.

Chwieroth, J. 2010. *Capital ideas: The IMF and the rise of financial liberalization*. Princeton: Princeton University Press.

Clift, B., and J. Tommilson. 2011. When rules started to rule: The IMF, neoliberal economic ideas, and economic policy change in Britain. *Review of International Political Economy* 18(1): 477–500.

Copelovitch, M. 2010a. Master or servent? Common agency and the political economy of IMF lending. *International Studies Quarterly* 54: 49–77.

Copelovitch, M. 2010b. *The International Monetary Fund in the global economy: Banks, bonds, and bailouts*. Cambridge: Cambridge University Press.

Cox, R. 1981. Social forces, states, and world orders: Beyond international relations theory. *Millennium: Journal of International Studies* 10(3): 126–155.

Cox, R. 1983. Gramsci, hegemony, and international relations: An essay in methods. *Journal of International Studies* 12(2): 162–175.

Cox, R. 1996. On thinking about future world order. In *Approaches to world order*, ed. R. Cox and T. Sinclair, 60–84. Cambridge: Cambridge University Press.

Dreher, A., and N. Jensen. 2007. Independent actor or agent? An empirical analysis of the impact of US interests on IMF conditions. *Journal of Law and Economics* 50(1): 105–124.

Edwards, M.S. 2005. Investor responses to IMF program suspensions: Is noncompliance costly? *Social Science Quarterly* 86: 857–873.

Gould, E. 2003. Money talks: Supplementary financiers and International Monetary Fund conditionality. *International Organization* 57: 551–586.

Gould, E. 2006. *Money talks: The International Monetary Fund, conditionality, and supplementary financiers*. Stanford: Stanford University Press.

Government Accountability Office. 2006. *Treasury has sustained its formal process to promote U.S. policies at the International Monetary Fund*. Washington, DC: GAO-06-876R 29 June 2006.

Gramsci, A. 1971. *Selection from the prison notebooks of Antonio Gramsci*. New York: International Publishers.

Hawkins, D., D. Lake, D. Nielson, and M. Tierney. 2006. Delegation under anarchy: States, international organizations, and principal-agent theory. In *Delegation and agency in international organizations*, ed. D. Hawkins, D. Lake, D. Nielson, and M. Tierney, 3–38. Cambridge: Cambridge University Press.

Hibben, M. 2015. Coalitions of change: Explaining low income country reform in the post Washington consensus. *Journal of International Relations and Development* 18(2): 202–226.

Keynes, J. 1936. *The general theory of employment, interest and money*. New York: Harcourt, Brace and Company.

Levy, J. 1994. Learning and foreign policy: Sweeping a conceptual minefield. *International Organization* 48(2): 279–312.

Lyne, M., D. Nielson, and M. Tierney. 2006. Who delegates? Alternative models of principals in development aid. In *Delegation and agency in international organizations,* eds. Hawkins, D., D. Lake, D. Neilson, and M. Tierney, 41–76. Cambridge: Cambridge University Press.

Martin, M., and R. Watts. 2012. Enhancing the IMF's focus on growth and poverty reduction in low-income countries. *Development Finance International*, April 2012.
Momani, B. 2004. American politicization of the International Monetary Fund. *Review of International Political Economy* 11(5): 880–904.
Momani, B. 2007a. Limits on streamlining fund conditionality: The International Monetary Fund's organizational culture. *Journal of International Relations and Development* 8(2): 142–163.
Moschella, M. 2010. *Governing risk: The IMF and global financial crises*. London: Palgrave MacMillan.
Nielson, D., and M. Tierney. 2003. Delegation to international organizations: Agency theory and World Bank environmental reform. *International Organization* 57(2): 241–276.
Nielson, D., M. Tierney, and C. Weaver. 2006. Bridging the rationalist-constructivist divide: Re-engineering the culture of the World Bank. *Journal of International Relations and Development* 9(2): 107–139.
Park, S., and A. Vetterlein. 2010a. Owning development: Creating policy norms in the IMF and World Bank. In *Owning development: Creating policy norms in the IMF and World Bank*, eds. Park, S., and A. Vetterlein, 3–26. Cambridge: Cambridge University Press, 2010.
Pop-Eleches, G. 2008. *From economic crisis to reform: IMF programs in Latin America and Eastern Europe*. Princeton: Princeton University Press.
Rickard, S., and T. Caraway. 2014. International negotiations in the shadow of national elections. *International Organization* 69(3): 701–720.
Robinson, W. 2004. *A theory of global capitalism: Production, class, and state in a transnational world*. Baltimore: Johns Hopkins Press.
Rogers, C. 2012. *The IMF and European economies: Crisis and conditionality*. Basingstoke: Palgrave Macmillan.
Rupert, M. 1990. Producing hegemony: State/society relations and the politics of productivity in the United States. *International Studies Quarterly* 4(34): 427–456.
Rupert, M. 1995. *Producing hegemony: The politics of mass production and American global power*. Cambridge: Cambridge University Press.
Seabrooke, L. 2007. Legitimacy gaps in the world economy: Explaining the sources of the IMF's legitimacy crisis. *International Politics* 44: 250–268.
Sil, R., and P. Katzenstein. 2010. *Beyond paradigms: Analytic eclecticism in the study of world politics*. London: Palgrave Macmillan.
Steinwand, M., and R.W. Stone. 2008. The International Monetary Fund: A review of the recent evidence. *Review of International Organizations* 3: 123–149.
Stiglitz, J. 2002. *Globalization and its discontents*. New York: W.W. Norton.
Stone, R.W. 2002. *Lending credibility: The International Monetary Fund and the post-communist transition*. Princeton: Princeton University Press.

Stone, R.W. 2004. The political economy of IMF lending in Africa. *American Political Science Review* 98: 577–591.

Stone, R.W. 2008. The scope of IMF conditionality. *International Organization* 62: 589–620.

Thacker, S. 1999. The high politics of IMF lending. *World Politics* 52: 38–75.

Thomas, P. 1994. *Alien politics: Marxist state theory retrieved*. New York: Routledge.

Van Houtven, L. 2002. *Governance of the IMF: Decision making, institutional oversight, transparency, and accountability*. IMF pamphlet series no. 53. Washington, DC: IMF.

Vaubel, R. 1991. The political economy of the International Monetary Fund: A public choice analysis. In *The political economy of international organizations*, ed. R. Vaubel and T. Willet, 204–244. Boulder: Westview Press.

Vetterlein, A. 2010. Lacking ownership: The IMF and its engagement with social development as a policy norm. In *Owning development: Creating policy norms in the IMF and World Bank*, ed. S. Park and A. Vetterlein, 93–112. Cambridge: Cambridge University Press.

Vreeland, J. 2003. *The IMF and economic development*. Cambridge: Cambridge University Press.

Wendt, A. 1987. The agent-structure problem in international relations theory. *International Organization* 41(3): 335–370.

CHAPTER 4

The HIPC and HIPC II Initiatives

In 1996, the IMF and the World Bank adopted the HIPC. The HIPC aimed to reduce the overall debt of qualifying LIDCs to a 'sustainable' level. Three years later, the 'enhanced' HIPC (HIPC II) replaced the HIPC. HIPC II offered greater resources and the number of LIDCs eligible for debt relief increased.[1] HIPC II also linked poverty issues to debt relief through the use of the PRSP initiative. PRSPs, created in 1999 to complement the HIPC II and the PRGF, served as a template for LIDCs to develop a detailed plan to promote growth with poverty reduction.

The HIPC and HIPC II marked the first IMF LIDC reforms since the creation of the 1987 ESAF. These reforms did not represent a significant ideological challenge to policies of liberal market structural adjustment pushed by the IMF and the World Bank during the 1980s and 1990s. Both HIPC and HIPC II, for example, stipulated that LIDCs should complete a trial period in which they demonstrated a 'track record of reform and sound policies through IMF- and World Bank-supported programs' before any multilateral debt relief was granted.[2] However, the dynamics that led to HIPC and HIPC II marked a tipping point for outsiders and elites critical of IMF policies in LIDCs—the HIPC was the first formal IMF policy initiative that recognized that LIDCs simply could not grow their way out of unsustainable debt levels if they adhered to Fund and World Bank policy advice. Some level of multilateral intervention, in addition to support for liberal market structural adjustment, was necessary to address LIDC debt issues and broader macroeconomic and development

© The Editor(s) (if applicable) and The Author(s) 2016

M. Hibben, *Poor States, Power and the Politics of IMF Reform*, International Political Economy Series,
DOI 10.1057/978-1-137-57750-4_4

concerns. The dynamics that led to the 1999 HIPC II more fundamentally reformed IMF and World Bank policies. Elite dissention, growing protest movements, and NGO pressure pushed the Fund to engage seriously with issues of poverty in its LIDC policy and connect the issue to debt sustainability.

This chapter first provides the context for the HIPC and HIPC II reforms through the use of historical structural analysis. It begins by examining how the breakdown of the hegemonic world order of *pax Americana* set the stage for the IMF's stabilization and structural adjustment policies in LIDCs following the 1982 Mexican debt crisis. It then traces how the IMF's ardent support of short-term economic contraction and structural adjustment initially reinforced the notion that LIDCs simply could grow their way out of unsustainable debt levels. The chapter then moves analytically 'inward' and 'downward' and examines the internal dynamics of the IMF in 1995 and 1996 that led to the HIPC. It highlights the key roles played by NGOs and World Bank President John Wolfensohn in the reform effort. External pressure, however, proved insufficient to push the Fund to formally shift its stance on multilateral debt reduction. Though the reform was finally adopted, divisions between two blocs of powerful states provided leverage for the staff and Managing Director Michel Camdessus to water down the scope of the HIPC.

The chapter then focuses on how shifts inside and outside the institution between 1996 and 1999 pushed the IMF to replace the HIPC with the HIPC II. This time, Managing Director Camdessus advocated strongly for the 1999 reform. This is due in part to the fact that the HIPC II formally tied poverty reduction, a key concern for Camdessus, to debt relief through the use of PRSPs. Along with the managing director, powerful states on the executive board supported efforts to deepen multilateral debt relief for LIDCs. Broad-based support from powerful states for the HIPC II also was tied to the upsurge in NGO and social movement activity that targeted the IMF and World Bank between 1996 and 1999.

4.1 Setting the Stage for HIPC and HIPC II: The Breakdown of Bretton Wood's Hegemony

As introduced in Chap. 3, historical structural studies of the IMF conceptualize the institution as being interrelated with social forces and world orders characterized in part by their hegemonic or non-hegemonic

qualities. Under conditions of hegemony, we can expect consensus and selective compromise, rather than more overt coercion, to be the predominant medium for expressing power relations between elites and subaltern forces. Hegemony also involves a crucial ideological component. During hegemonic periods, norms that support the social and political order are framed such that they facilitate large-scale buy-ins from subordinate groups. Non-hegemonic world orders are instead characterized by a lack of ideological cohesiveness, increased conflict, and a more overt use of force and 'top down' decision making by powerful entities in order to establish and maintain political and economic control.

From its creation in 1945 to the early 1970s, the IMF played an integral role in the formation and perpetuation of a hegemonic world order rooted in American Fordism. 'Fordism' describes the social structures, ideology, and practices that facilitated the emergence and consolidation of mass-based factory production and consumption in the USA in the first several decades of the twentieth century. Following World War II, American power projected Fordism to an international scale through its involvement in multiple initiatives including the creation of the IMF. A critical factor that fortified the US centered hegemonic order in the post-World War II era was the informal class compact that emerged between American corporate capital and moderate elements within organized labor in the interwar years. Along with the passing of a series of laws integral to the success of the union movement in the 1930s and 1940s, the consolidation of the New Deal welfare state helped undermine communist and socialist elements within American labor and put to rest broader challenges raised against US capitalism (Rupert 1995: 173).

The New Deal consensus that emerged in the USA in the interwar years, and the following victory in World War II, underwrote the narrative that American capitalism, stripped of its most abusive characteristics by a moderate labor movement, had proven superior in productive capacity to communism, fascism, and capitalist European states. High growth rates through capital-labor consensus, in turn, produced the social stability and conditions necessary for liberal democracy and individual freedom.[3] This understanding equated problems in politics with inefficiencies in production that could be overcome by conditions that maximized economic output. The formation of an interclass coalition committed to growth, rather than a focus on redistribution or a restructuring of social productive relations through class-based political action, served as a central tenet for those championing the American capitalist

model following World War II (Rupert 1995: 44). The internationalization of Fordism thus was portrayed as serving a higher universal purpose. As noted by Stephen Gill (2008: 58–9), its 'ideological banners included the concepts of liberty, modernity, affluence, welfare and the "end of ideology," fused into a concept of "the West" and an anti-communist alliance'.

The state form created as a result of the reconstruction of Western Europe through the Marshall Plan reflected the vision of US Fordism. This included the adoption of American business and labor management practices, the support and integration of moderate union movements and centrist political parties, and a commitment to free trade through participation in the nascent Organization for European Economic Cooperation.[4] As highlighted by Robert Cox, however, the state form that emerged in the late 1940s in capitalist societies also had to manage three developments of the interwar years that were at odds with liberal economic ideology. First, states were now active managers of the economy through corporatist arrangements and Keynesian demand management. Second, states selectively intervened to protect vulnerable social groups from market forces. And third, as a result of a half century of state economic management, capital investment was now concentrated in a powerful oligopolistic sector more open to world markets. This sector coexisted with small businesses oriented toward domestic markets and a state sector less inclined to support liberalizing policies (Cox 1987: 220). Capitalist states thus had to balance the demands of elites committed to liberalization and domestic interests who often were the short-term losers in the transition away from more generous welfare state policies and protectionism. This tension manifested itself in the dynamic of 'embedded liberalism' described by John Ruggie (1982: 393–8) and introduced in Chap. 2. Selective exceptions to liberalization were granted to cushion particular domestic sectors while the national economy as a whole was restructured to integrate into an increasingly open world market.

IMF policy during *pax Americana* reflected the tensions between forces that lobbied for a maximization of liberalization and the historic hangover of class compromise forged in the interwar years. While the IMF generally prioritized fiscal discipline over full employment, states with deficits were permitted to tap Fund resources to adjust more slowly and systematically to improve their balance of payment position. IMF resources could also be selectively used to help vulnerable groups during the period of adjustment. In addition, the Fund's support of capital controls during the

modified gold standard of the Bretton Woods era produced dynamics where individual states could pursue expansionary monetary and fiscal policies during recessionary periods. This granted national politicians room to appease domestic constituents accustomed to the full employment policies of the interwar years. The IMF also did not pressure industrialized states to abandon corporatist arrangements or mixed market economies during this time period.

The policy choices advocated by the IMF in poor states during the Bretton Woods era also can be traced to the social forces and contradictory elements created by international Fordist hegemony and Cold War politics. Much of the non-communist developing world during this time embraced ISI policies. While Fund policymakers ideologically opposed the heavy state intervention and protectionism of ISI, IMF conditionality requirements avoided 'deep' structural reform. IMF policy therefore reflected a position of compromise between the policy objectives and ideology of a US-led international historic bloc and elites in ISI states. To appease the former, tepid support of state capitalist—but anti-communist regimes—was a necessary compromise given the realities of Cold War politics. Rather than force structural reforms and dismantle ISI policies through the leverage of conditionality requirements as was done in the 1980s and 1990s, the IMF instead pushed its anti-statist agenda through technical assistance programs such as the IMF Institute.

By the late 1960s and early 1970s, the Bretton Woods order began to falter. Reduced productivity and consumption in wealthy capitalist states, combined with increases in oil prices due to conflict in the Middle East, produced stagflation across many OECD economies. Profit rates also fell sharply through the 1970s, as did exchange rate stability when the Bretton Woods modified gold standard was abandoned in 1973 (Frieden 2006: 346–7, Glyn 2006: 1–8). Neo-Gramscian scholars, including Robinson (2004: 148–9), point to this 'crisis of capitalism' as the catalyst that sparked a non-hegemonic epoch characterized by the rise of globalized capitalist production, a shift rightward in political and economic ideology, and the subsequent restructuring of state forms and institutional arrangements in support of transnational capitalist interests.[5] At the multilateral level, worldwide market liberalization was supported by the formation of legal and regulatory structures to enhance globalized production and trade (the formation of the World Trade Organization (WTO) in 1995, for example). At the

state level, transnational capitalist pressure was exerted to restructure and integrate national economies into the liberalized global economy. This involved the dismantling of Keynesian welfare state forms in the global North and ISI state forms in the global South (Jessop 1993; Harvey 2005: 64–85). In the case of IMF LIDC policy, this shift was reflected initially in an increased focus on structural reform designed to move poor states away from the ISI model. The EFF, for example, created in 1974, was the first formal IMF lending program that deepened the institution's involvement in structural reform.

4.2 The Mexican Debt Crisis, Demand Compression, and Structural Market Reform

The IMF's ability to forcibly demand reforms in LIDCs and middle-income countries grew in the 1980s and 1990s, and this stems in part from a perfect storm of events starting in the late 1970s. The second oil crisis of the decade cut into the national income of non-oil producing states and reinforced already existing patterns of high inflation across the developing world. Inflationary concerns were not limited to the global South, as the US Federal Reserve dramatically curtailed monetary supply from 1979 to 1982. The subsequent combination of higher interest rates for global debtors and reduced demand from industrialized states for their products pushed up unemployment, increased balance of payments deficit and debt levels, and reduced access to private financing.[6] Expansionary fiscal policies and overvalued exchange rates to counteract the drop in demand further exacerbated debt levels in poor states.

Mexico, financed extensively by private loans from US commercial banks, announced its inability to meet debt obligations in the summer of 1982. While Mexico was not the first or the largest economy in the global South to undergo a debt crisis in the early 1980s, its high exposure to private credit had systemic ramifications (Boughton 2001: 281). The top 13 American banks, for example, had loaned Mexico US$16.5 billion, a figure that stood at almost half their capital (Green 1995: 60). The IMF's response to the crisis represented a watershed moment in several respects. First, the Fund pressured private banks to reschedule their debt payments with Mexico and increase their lending amounts. As noted by Managing Director Jacques de Larosière, rather than bail out banks, the IMF instead intended to 'bail them in'.[7] Second, the Fund's

lending package to Mexico included conditions designed to aggressively and rapidly improve its balance of payment position. This involved currency devaluation, fiscal austerity, and a tightening of monetary policy. And third, essential reforms designed to dismantle ISI inspired policies deemed 'market distortive' were tied to the bailout arrangement.

A focus on stabilization and improved balance of payment position through demand compression and structural reform to reduce market distortive policies served as the template for the Washington Consensus development model. IMF Chief Economist Michael Mussa (1991–2001) described the 'three-pronged' strategy that emerged as follows:

> Despite differences imparted to IMF programs by country-specific characteristics, blueprints of adjustment programs prepared by Fund staff contain important common elements…In their practical application over time, these common elements have produced a three-pronged approach for confronting external payment problems: (1) securing sustainable external financing; (2) adoption of demand-restraining measures-especially in the early stages of a program; and (3) implementation of structural reforms. (Mussa and Savastano 1999: 98)

In regard to structural reforms, the IMF argued that poor states could ultimately break the cycle of debt and economic dysfunction only if they undertook policies that 'aimed at reducing government-imposed distortions and other structural and institutional rigidities that impair an efficient allocation of resources in the economy and hinder growth' (Mussa and Savastano 1999: 102). Given that these policies were applied across much of the global South and stood in direct contradiction to state intervention and protectionism, the early 1980s thus marked the historical point where the ISI development model was supplanted by the liberal market model of the Washington Consensus (Rapley 2007: 63–84).

4.3 From Bilateral Debt Restructuring to Debt Reduction

By the end of 1982, 40 LIDCs and middle-income states were unable to make payments on outstanding debt. A year later, a majority of countries in Latin America and the Caribbean were involved in IMF lending arrangements due to unsustainable debt issues. By 1985, 21 African states also had taken on Fund loans. The IMF, industrial states, and exposed

private lenders argued that the primary reason poor states could not service their debts was illiquidity (Dornbusch and Fischer 1986: 836–41). Rather than debt forgiveness, it was believed that income could be created to meet debt obligations if debtor states adopted policies that rapidly produced trade surplus. While most Latin American states saw dramatic shifts toward trade surplus by the mid-1980s, substantial decreases in private lending exacerbated the deleterious effects of severe economic contraction. Africa witnessed even worse outcomes. By 1985, as a result of a severe recession, almost all African states tied to Fund lending failed to make debt payments to the institution or private creditors. Severe drought and broad-based political instability also reinforced the poor economic performance of the region.

The increased tension caused by austerity and recession, combined with drops in private lending and debt service repayment across much of Latin American and Africa, sparked a growing concern in the Reagan Administration (1980–1988) that a systemic crisis could develop. At the 1985 annual IMF-World Bank meeting, US Secretary of Treasury James Baker III proposed a three-tiered plan to reduce austerity measures, stimulate growth, and increase liquidity in indebted states. Commercial banks agreed to increase by US$20 billion their lending to 15 highly indebted countries, primarily in Latin America.[8] The IMF, the World Bank, and the Inter-American Development Bank also planned to substantially increase lending and coordination in poor indebted states. In order not to 'waste' incoming resources, debtor states were required to more aggressively implement structural market reform with oversight surveillance provided by the IMF and World Bank.

The Baker Plan thus reinforced the notion that debtor states suffered from short-term illiquidity and could ultimately reduce debt levels if the 'appropriate' policies were pursued. The crisis continued without abetting in sub-Saharan Africa in the mid-1980s, which sparked two new initiatives that challenged this notion. At the 1987 annual meeting of the IMF and World Bank, the Special Programme of Assistance to Africa (SPA) was launched.[9] The SPA represented the first broad-based international response specifically crafted for the debt and development crisis in Africa. Through the SPA, 31 highly indebted LIDCs in the region in good standing with the IMF and World Bank became eligible for resources to support adjustment financing. Between 1988 and 1996, US$27.7 billion in adjustment support was distributed by 17 donors including the Fund and the IDA. Tanzania, Mozambique, Zambia, the Ivory Coast, Ghana,

Kenya, Senegal, and Uganda received most of this assistance (Gamarra et al. 2009: 15).

Along with the focus on African debt relief, discussions on bilateral debt reduction emerged in 1987. A proposal introduced by UK Chancellor of the Exchequer Nigel Lawson, and supported by France, called for Paris Club members to convert bilateral aid loans to grants, increase repayment periods to 20 years, and reduce the rate of interest on outstanding debt by one-third for debtor states in good standing with the IMF.[10] British and French lobbying continued through 1987 and 1988 at the Paris Club, the Venice and Toronto G-7 Summits, the Commonwealth Finance Ministers Meeting, and the annual meetings of the IMF and World Bank. Despite initial opposition from Germany, Japan, and the USA, the G-7 endorsed the compromise 'Toronto Terms' in 1988. The bilateral non-concessional debt and guaranteed commercial debt of LIDCs was now reduced by up to 33 %. The Toronto Terms also extended the repayment period for debt arising from concessional official development assistance (ODA) to 25 years at interest rates below market value. Between 1988 and 1990, 17 African LIDCs, along with Bolivia and Guyana, restructured their debt claims according to the Toronto Terms. A series of agreements in the 1990s, facilitated through the G-7, increased the level of bilateral non-concessional debt and guaranteed commercial debt forgiveness negotiated through the Paris Club. By 1999, debt forgiveness stood at 90 %.[11] Rich states and LIDCs also negotiated substantial direct forgiveness of ODA loans during this time period. By 1990, France, Germany, Belgium, the USA, and Canada canceled over US$6 billion in ODA debt to African LIDCs (Gamarra et al. 2009: 16).

The shift from debt restructuring to debt forgiveness also emerged in negotiations between private creditors and poor states in the late 1980s. Between 1980 and 1988, the London Club restructured the commercial debt of 20 LIDCs worth US$18.7 billion.[12] Just as the Paris Club and the G-7 had changed their strategy from debt restructuring to debt forgiveness, commercial banks too recognized that debt restructuring alone was not sufficient to resolve their exposure risk in the global South. In 1989, US Secretary of Treasury Nicholas Brady pushed a new plan to incentivize voluntary private debt forgiveness. Under the 'Brady Plan', the IMF and World Bank each provided US$12 billion, and the Japanese Import-Export Bank US$8 billion, to support commercial bank debt forgiveness primarily in middle-income countries in Latin America. Two LIDCs, Nigeria and Ivory Coast, participated in the Brady Plan.

4.4 Rethinking IMF LIDC Debt Forgiveness: The HIPC Initiative

As bilateral debt levels decreased through the late 1980s and early 1990s, the percentage of LIDC debt owed to the IMF and multilateral development banks substantially increased.[13] In response to pressure from NGOs and social movements, the UK formally initiated the notion of IMF and World Bank LIDC debt relief and reduction at the 1994 spring meetings of the IMF and World Bank. Managing Director Michel Camdessus (1987–2000) strongly opposed LIDC debt forgiveness. First, Camdessus argued that debt forgiveness threatened the IMF's status as a preferred creditor. Given that the IMF provided loans at below market rates to highly risky LIDCs, debtor states were expected to meet Fund debt obligations prior to repayments made to bilateral or commercial lenders. Forgiving IMF debt would make the institution less willing to lend to LIDCs during crises in the future, thus undermining its role as 'lender of last resort'. Second, given that many lower-middle-income countries had contributed resources to IMF's lending to LIDCs, debt forgiveness would negatively impact poor, non-LIDC states. Third, debt forgiveness undermined the overall lending capacity of the institution. And fourth, Camdessus maintained that rich states would be less inclined to provide aid to poor states if debt was forgiven (Boughton 2012: 650).

IMF staff shared the same skepticism expressed by Camdessus. On 7 February 1995, IMF and World Bank staff presented a joint paper on the issue of debt sustainability, concluding that for the majority of LIDCs 'debt service ratios on currently outstanding multilateral debt will be essentially unchanged or lower in the coming three years (1995–1997) and will decline further in most cases over the next decade'. As such 'there was no unmanageable hump of debt servicing to multilaterals for the vast majority of heavily indebted poor countries' (IMF 1995a: 2–3). The executive board's reaction to the staffs' assessment was mixed. At a meeting on 24 February 1995, critics of the staff report most sympathetic to multilateral debt relief included the executive directors from the UK (Evans) and those representing African LIDCs (Dlami and Koissey). Evans, for example, concluded that 'the problem is more serious than the Fund staff paper admits. And that the Fund has a role in resolving the problem' (IMF 1995b: 8). Executive Directors Lissakers (USA) and Clark (Canada) provided more reserved support. Clark argued that 'the Fund and Bank cannot be grant agencies. Nevertheless these multilateral credit

organizations cannot ignore that their interest charges…divert some productive resources away from the debtor country.'[14] Executive Directors Esdar (Germany), Mesaki (Japan), Autheman (France), Grilli (Italy), and Srejber (Sweden) strongly resisted calls for debt relief. Managing Director Camdessus also reiterated that 'there appears to be no need for major changes in the Fund's facilities, or in their concessionality, for most of the poorer members' (IMF 1995c: 2).

Despite initial pushback from IMF management, staff, and a majority of powerful state executive directors to debt reduction, NGO and social movement pressure proved critical in reshaping the internal Fund debate on the issue. The European Network on Debt and Development (EURODAD) and Oxfam International played the most important roles. In 1994, EURODAD (partnered with Oxfam, the British Debt Crises Network, the Debt and Development Coalition of Ireland, the Nordic Network on Debt and Development, and the Swiss Coalition) organized a campaign on multilateral debt forgiveness that targeted the World Bank and the IMF. By 1996, 'over 150 NGOs, NGO networks, academics, debt experts, representatives from the UN, UNCTAD, UNDP, the Non-aligned Movement, the Commonwealth Secretariat and other interested institutions' joined the campaign (Bokkerink and Hees 1998: 324). In addition, religious organizations actively pushed the Fund to address debt relief issues. Catholic Church leadership, for example, met with Camdessus in London and Washington in 1996 where the managing director 'was reported to have been deeply affected by the meetings as he came face to face with the hostility of world Catholic leaders toward the institutions he led and its economic policies' (Momani 2010: 40–1).

NGOs also applied pressure to powerful state legislatures and finance ministers through several channels. Prior to the July 1995 Halifax G-7 summit, EURODAD and its partner organizations heavily lobbied G-7 leadership on issues of multilateral debt relief. In its subsequent communiqué, the G-7 acknowledged that the 'IMF and World Bank should lead in developing a comprehensive multilateral approach to assist countries with multilateral debt and debt service ratios above prudent levels in addressing their debt burdens, through the flexible implementation of existing instruments, and new mechanisms where necessary' (G-7 1995). In addition, the EURODAD coalition lobbied IMF and World Bank executive directors and management to review the assumptions of the 7 February 1995 staff report that initially downplayed the severity of multilateral debt issues in LIDCs. As noted above, the initial paper maintained that most of the

poor states could manage debt levels. This assessment assumed an annual nominal export growth rate of 6 % and an annual nominal 3 % growth rate with new concessional lending. When challenged by EURODAD on these figures, the executive board asked the staff to revisit the issue. A 30 March revised staff report increased the number of countries severely affected with debt issues from 8 to 23, but once again argued that multilateral debt remained manageable if sufficient concessionary lending came forward (IMF 1995d).

In parallel to pressure exerted by social movements, newly appointed World Bank President James Wolfensohn grew increasingly sympathetic to the issue of multilateral LIDC relief. Following an inaugural trip to Africa in the summer of 1995, Wolfensohn looked to set up a debt relief facility funded both by the World Bank and bilateral support. Camdessus sensed the growing support for Wolfensohn's efforts and broader pressure to address the issue. In 1995, he charged the policy, development, and review department (now the SPR department) to devise a multilateral debt relief plan that would be funded primarily by donations rather than IMF resources. Camdessus also insisted that debt forgiveness would be conditional on structural market reform (Boughton 2012: 653). Through the summer and fall of 1995, IMF and World Bank staff developed a framework for the HIPC. As suggested by Camdessus, a key stipulation that emerged involved structural reform conditions tied to debt relief. In order to access HIPC resources, the LIDC in question would need to successfully carry out three years of structural reform through an ESAF-supported program. A second three-year arrangement would then be granted where the LIDC in question would receive multilateral debt reduction to support a sustainable debt load.

In the winter and spring of 1996, staff presented several drafts of the joint IMF-World Bank proposal to the executive board. As witnessed at the board meeting on 8 April 1996, powerful states remained divided on several issues. Most notable was the US shift from mild support of the UK position in 1995 to fierce advocacy of bolder debt relief than the staff proposed. US Executive Director Lissakers, for example, critiqued the 2 April 1996 revised staff proposal on multilateral debt relief as biased, rigid, and too cautious to effectively address debt issues in LIDCs:

> [T]he proposed framework would not give the Fund sufficient flexibility to assess the needs of individual cases, including those where it might be appropriate to take bolder actions in tandem with other bilateral and multilateral

> creditors within a shorter time frame to provide effective debt relief and place the country on a path toward higher rates of sustainable growth. (IMF 1996: 3)

France, Germany, and Japan remained staunchly opposed to the UK and US position. They also critiqued the staff's reference to 'social issues' in the report. Executive Director Mesaki (Japan), for example, stated:

> …it would not be appropriate to indicate that…principal donors and multilateral creditors…undertake to implement a set of measures aimed at the achievement of a sustainable debt level consistent with a country's strategy to improve growth prospects and reduce poverty. The Fund's efforts should be aimed at helping countries strengthen their overall macroeconomic framework, not at achieving objectives related to longer-term growth or to social issues….Therefore, we did not see a need to expand on the prospective role of the Fund in resolving the debt problem of the HIPCs. (IMF 1996: 9)

In response to the split in powerful state preferences on staff HIPC proposals in spring 1996, Camdessus supported a proposal put forth by the German (Esdar) and Japanese (Mesaki) executive directors. The staff position was endorsed by the management and not the executive board. Despite critiques from the UK and US executive directors that the staff proposal was too conservative and 'neither economically effective and efficient nor politically sustainable', the split on the board and Camdessus' support for Esdar and Mesaki's proposal allowed the staff framework of debt relief to go to the interim committee in April 1996. In September, the board of governors and the executive board endorsed the new HIPC program.

4.5 'Faster, Deeper, and Broader Debt Relief' with Poverty Reduction: The HIPC II

The IMF and the World Bank replaced the HIPC with the 'enhanced' HIPC (HIPC II) in 1999. HIPC II promised to provide 'faster, deeper, and broader debt relief' for LIDCs and tied debt forgiveness to a series of poverty reduction initiatives introduced with the new concessionary PRGF. The dynamics leading to the adoption of HIPC II included support from a series of actors including powerful states, LIDCs, the managing director, and NGOs. Both liberal and conservative wings of the US Congress played an active role in pressuring the Fund to adopt HIPC II. Broad support of a more aggressive stance on debt relief and a recognition of its relationship to

both poverty and development outcomes also points to a shift both within the Fund and the policymaking community between 1996 and 1999. This is tied in part to the fallout from the Asian crisis, which significantly challenged Fund competence and Washington Consensus policy prescriptions.

NGOs were perhaps the most important actors pushing the Fund to adopt HIPC II changes in 1999. As summarized by a LIDC staff member:

> The NGO community, having tasted blood with HIPC, decided to push harder…push further. They said we set the sustainability threshold too high… [and the process of debt relief] is taking too long…And there is not enough linkage between debt relief operations that you are doing and the ultimate objectives of reducing poverty. So they pushed for all of these things as part of a reformed HIPC and the international community eventually bowed to that pressure. You have to hand it to the NGOs, they were extremely effective and in some respects, they got it right.[15]

Staff interviews highlighted the role of the Jubilee campaign as follows:

> Debt relief was spurred by the NGOs. Without the NGOs pushing for debt relief—the Jubilee group—we wouldn't have gotten where we were going.[16]
>
> We had the original HIPC that came from the realization that the Paris Club rescheduling approach wasn't changing anything. So obviously something had to happen. That recognition came up and was facilitated by a very large public debate around the issue led by the Jubilee debt campaign.[17]

Jubilee 2000 also initiated several high profile direct action and lobbying campaigns. At the 1998 Birmingham G-7 Summit, for example, Jubilee helped organize a human ring of over 50,000 supporters of debt relief around the city. In Cologne a year later, over 35,000 protestors turned out. By 1999, Jubilee also had petitions circulating in over 100 countries and had collected over 17 million signatures demanding IMF and World Bank LIDC debt cancelation (Busby 2007: 249).

In the USA, Jubilee 2000 and other NGOs pushed Congress to pressure the Fund in two primary areas. First, lobbying took place to build support for a congressional mandate in 1998 instructing the US executive director 'to use aggressively his voice and vote to enhance the general effectiveness of the IMF with respect to….core labor standards, social safety nets…especially the world's poorest, heavily indebted countries' (Government Accountability Office 2006: 9). The Jubilee campaign also built a successful coalition of liberal Democrats and conservative

Republicans that eventually secured US$435 million of congressional funding for Fund debt relief (Busby 2007: 266–8). Pressure was also exerted on Congress in 1998 in regard to the IMF's 11th quota review. While much of the critique came from conservative members focused on the fallout from the Asian crisis, hearings in Congress included witnesses critical of Fund programs for the poor (US House of Representatives 1998). NGOs also targeted the Clinton administration and governments in the UK, France, and Germany.

Staff thinking in regard to the relationship between debt relief and Fund policy objectives in LIDCs also shifted between 1996 and 1999. Most striking was the rise of internal debates about the efficacy of the Polak model when applied to LIDCs. As noted by a senior staff member in the African department:

> When I first came here, it was all about closing a balance of payment gap. Every program that you designed had to show that the balance of payments gap closed within a three to five year period. If it didn't show this, out the window it went. Starting with… the HIPCs, we started questioning that. If a country is really developing and is really poor, that can't be true. It has to borrow from abroad. In fact, you have to have a balance of payment gap that opens over time, not one that closes.[18]

For some LIDC staff, the primary purpose of debt relief was no longer a gradual process of balance of payments deficits correction. Rather, it instead served as a tool to allow LIDCs to increase short-term balance of payment deficits that would allow for long-term poverty reduction and subsequent improved development outcomes (see Chap. 5).

In contrast to the dynamics leading to HIPC reform in 1996, Managing Director Camdessus played a proactive role in advocating for HIPC II. This shift is explained in part by the growing support extended by several key senior staff members for his position that IMF LIDC policy needed to more proactively address poverty reduction. Through his tenure as managing director (1987–2000), Camdessus instituted several policies that pushed an often resistant Fund staff to more directly engage with poverty issues in LIDCs. In the late 1980s, Camdessus initiated a series of workshops for LIDC staff on problems of poverty. In 1990, Camdessus mandated that Fund staff develop a poverty profile for each LIDC and assess if and how conditionality requirements impacted poverty (Vetterlein 2010: 104). Camdessus also committed the IMF to pursue policies that

facilitated 'high quality growth', a position supported by World Bank President Wolfensohn. For Camdessus, this category of growth was sustainable, resistant to external shock, sensitive to the environment, invested in human capital, and was accompanied by poverty reduction and equality of opportunity (Camdessus 1990: 10–1). As momentum grew between 1996 and 1998 for 'deeper' LIDC relief, Camdessus looked to link his focus on poverty issues to the forthcoming reform and find key allies within the IMF staff that supported his position.

In April 1999, Camdessus and Wolfensohn outlined their position for modifying the HIPC as follows:

1. Debt relief should reinforce the tools of the international community with the wider aim of promoting sustainable development and poverty reduction.
2. Debt relief should strengthen the incentives for debtor countries to adopt strong programs of adjustment and reform.
3. Enhanced debt relief should focus on poorest countries.
4. Debt relief should be irrevocable.
5. Simplification of the HIPC framework. (IMF 1999a: 87)

A joint IMF-World Bank paper that summarized critiques and possible options going forward was debated by the executive board on 16 April 1999. Four areas were discussed: depth, breadth, and timing of debt relief, and issues of conditionality. Most notable was the shift in position of the Japanese (Yoshimura) and German (Esdar) executive directors from three years earlier. While wary of debt forgiveness and a move toward development issues while discussing the HIPC in 1996, Yoshimura and Esdar now supported deeper and quicker debt forgiveness in 1999 and tying debt issues to poverty. Yoshimura, endorsing a move toward HIPC reform, argued that 'social development and poverty alleviation are among the ultimate targets of HIPC countries, and no one disagrees generally on the need for tighter links among debt relief, poverty reduction, and social policies' (IMF 1999b: 39).

The German position was more explicit in calls for deepening debt relief and linkages to poverty:

> We should aim to speed up the debt relief process, so that HIPCs can benefit from debt reduction as early as possible. The debt relief process should lead to an immediate freeing up of internal budgetary resources for poverty

> reduction measures by granting debt service relief. We should increase the volume of delivered debt reduction, so that more funds can be released for measures to fight poverty and to promote sustainable development. The debt relief process should be embedded in a development strategy promoting sustainable development and in particular focusing on the reduction of poverty in debtor countries. (IMF 1999b: 55)

This position, supportive of speeding up and deepening debt relief, was shared by the UK (Pickford) and by executive directors representing African LIDCs (Barro Chambrier and de Morais), the Nordic states (Lehmussaari), Netherlands and Eastern Europe (Wihnholds), and Canada, Ireland, and the Caribbean (Bernes).

The USA (Lissakers), while an advocate for the reform, expressed caution on issues of timing and reiterated its position that debt relief needed to be tied to structural reform:

> We believe that the presumption of a six year track record of reforms should be maintained…Providing debt relief outside a framework of macroeconomic stabilization and broader structural reform will not support the type of sustained improvements in growth and poverty alleviation at the heart of this initiative. Stabilization efforts and reform need time to take hold… we do not do these countries any favors by rushing to a completion point. (IMF 1999b: 59–60)

France (Milleron) represented the least supportive powerful state:

> We are also ready to reflect further on tightening the links between debt relief and poverty reduction. We recognize that we do not have specific views on how to proceed at this stage. But, we nevertheless believe that debt cancellation cannot substitute for traditional ODA support, which has the additional advantage of positive externalities…Debt relief measures, however generous, can only accompany, not substitute for development policies. France therefore believes that only countries with irreproachable economic and social management as well as governance should benefit from this enhanced exceptional effort by the international financial community. (IMF 1999b: 48–51)

As with the HIPC process, negotiations around HIPC II saw broad agreement from powerful states and staff on the importance of structural reform, conditionality, and Fund involvement in any new debt relief scheme. Executive directors from LIDCs reaffirmed this sentiment pushed

by creditor states. Executive Director Chambrier best captures this when he stated:

> While we see merit in de-linking debt relief from ESAF compliance, we understand the concerns expressed on the need for assurances regarding policy performance…. Concerning the use of performance requirements after the completion point, we can endorse the arguments outlined by the staff, given the risk related to the fact that this situation could entail difficult judgments about the delivery of debt relief. (IMF 1999b: 53)

Feedback from the 1999 April meeting was forwarded to G-7 leadership for discussion at the Cologne Summit meeting in June. In response, the G-7 leaders 'recommended relaxing the eligibility criteria to provide speedier and deeper debt relief to more countries' (IMF 2000: 52).

Through the summer of 1999, IMF and World Bank staff finalized the proposed 'enhanced' HIPC. Along with providing easier access to debt relief, the HIPC II was tied to a proposed new policy instrument, the PRSP. The PRSP was an outgrowth of work initiated by World Bank President Wolfensohn and housed in the Bank's poverty reduction and economic management department. At the 1998 Annual Meeting of the IMF and World Bank, Wolfensohn announced that each IDA-eligible country, working with Bank staff, would prepare a 'Comprehensive Development Framework' (CDF). Through the CDF, the LIDC in question would broadly define its development goals and outline strategies to meet them (Boughton 2012: 644).

Under the leadership of Masood Ahmed, the vice president for poverty reduction and economic management at the World Bank, the themes of country ownership and partnership introduced in the CDF were integrated with poverty reduction in the proposed PRSP. PRSPs, prepared by national governments with input from domestic stakeholders and external institutions, would outline how the country in question would promote growth and reduce poverty. When complete, the PRSP would then be forwarded to the IMF and World Bank executive boards accompanied by a joint assessment undertaken by IMF and Bank staff (the Joint Staff Advisory Note or JSAN). The JSAN would assess the overall strategy presented in the PRSP, offer feedback for improvement, and recommend if the PRSP in question constituted 'a sound basis' for continued debt relief or concessional lending.[19]

Managing Director Camdessus lobbied heavily to pass the proposed PRSP and tie it to LIDC debt relief and a new concessionary lending facility. In September 1999, the 'enhanced' HIPC was approved by interim and development committees pending funding, and was formally adopted by the Fund and World Bank executive boards in December 1999. The year also witnessed the formal adoption of PRSPs and the requirement that LIDCs would have to complete a PRSP in order to access HIPC II resources or concessional lending.

4.6 Conclusion

The breakdown of Bretton Wood's hegemony and the world order of *pax Americana* significantly shifted the role of the IMF in LIDCs. Debt crises in Mexico and across the global South in the early 1980s provided leverage for the Fund to integrate structural reforms into its concessionary lending arrangements designed to dismantle ISI state forms. As LIDC debt levels increased through the 1980s and early 1990s, the IMF initially downplayed the severity of the issue. IMF staff and Managing Director Camdessus maintained that LIDC multilateral debt forgiveness was both unnecessary and unwise. If LIDCs simply followed IMF protocol and committed deeply to structural reform, they could manage debt levels in the short term and eventually 'grow themselves out of debt'.

The division of preferences between two blocs of powerful states (UK and USA on one side and Germany, Japan, and France on the other) on the issue of limited IMF debt forgiveness reinforced the leverage of Camdessus and IMF staff at two junctures. Prior to the controversy of the 7 February 1995 staff paper, a lack of support for debt forgiveness from executive directors representing Germany, Japan, and France strengthened the hand of Camdessus and the staff to resist pressure exerted by the UK and USA. In 1996, when NGO pressure and World Bank President Wolfensohn convinced Camdessus to shift his position, the continued division between the UK and USA on one side, and German, Japan, and France on the other, allowed the managing director and staff to put forward a limited proposal that integrated structural reform requirements into the debt relief deal. As PA theory predicts, powerful state preference heterogeneity increased management and staff power in reform efforts.

In contrast to the HIPC, powerful states were on the same page during HIPC II negotiations. They also supported the efforts of Managing Director Camdessus to integrate poverty issues into debt relief. Similar to the HIPC, NGOs applied pressure both directly on IMF management and staff and powerful states. In this case, staff interviewed more clearly articulated that pressure from NGOs and direct lobbying of staff and management was a critical variable that led to the HIPC II reform. As discussed further in Chap. 5, two major shifts in how the HIPC II was framed within the institution are of note. First, the notion that the introduction of the HIPC II would serve a broader agenda for LIDC poverty reduction marked a watershed moment for IMF policy direction. Systematic engagement with poverty issues in LIDCs was now IMF 'standard operating procedure'. Second, the fact that some staff began to reevaluate the appropriateness of the Polak model and the need to always close balance of payments gaps highlighted the breakdown of deep consensus in the institution.

Notes

1. As of 2015, 36 LIDCs had received debt reductions valued at approximately US$76 billion. These countries include: Afghanistan, Benin, Bolivia, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Côte d'Ivoire, Comoros, Democratic Republic of the Congo, Republic of Congo, Ethiopia, The Gambia, Ghana, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, São Tomé and Príncipe, Senegal, Sierra Leone, Tanzania, Togo, Uganda, and Zambia.
2. IMF Official Website, IMF Factsheet: Debt Relief Under the Heavily Indebted Countries (HIPC) Initiative, http://www.imf.org/external/np/exr/facts/hipc.htm, date accessed 4 June 2015.
3. Rupert (1995: 157) highlights how this rationale was used by American industrial union leadership when it clamped down and purged 'radical' union members from its ranks in the late 1940s and early 1950s: 'Liberal capitalism was preferable to communism insofar as it allowed "free trade unions" to petition capitalists for redress of grievances, and thus to control abuse. These abuses were not construed as intrinsic to liberal capitalism, but were implied to be the product of idiosyncratic conditions and authoritarian employers…Communism, on the other hand, was inherently flawed and irredeemably opposed to the interests of Americans and workers.'

4. For an overview of how the Marshall Plan restructured European state-society relations along liberal capitalist lines, see Cox (1987: 214–7) and Rupert (1995: 52–3).
5. William Robinson (2004: 148–9) describes this process in more detail as follows: 'The post-World War II expansion— the so called "golden age" of nation-state capitalism—entered into crisis in the 1970s, precipitating a period of restructuring and transformation. Capital responded…by "going global." This allowed it to break free of the constraints that had been imposed on profit maximization by working and popular classes and by national government in the preceding epoch of Keynesian capitalism'.
6. Middle-income countries and LIDCs differed in the degree of private borrowing they undertook in the 1970s and early 1980s. Middle-income countries, primarily in Latin America, borrowed heavily from private creditors. LIDCs had much lower levels of private lending. Direct loans from governments, or private loans that were insured by the lending governments' export credit agencies, served as the main source of lending for poor states.
7. IMF Official Website, IMF Money Matter: An IMF Exhibit—The Importance of Global Cooperation, http://www.imf.org/external/np/exr/center/mm/eng/mm_dt_03.htm, date accessed 4 June 2015.
8. The 15 countries included: Argentina, Brazil, Mexico, Venezuela, Uruguay, Chile, Ecuador, Columbia, Peru, Bolivia, Yugoslavia, the Philippines, Nigeria, the Ivory Coast, and Morocco.
9. The Special Programme on Assistance to Africa was renamed the 'Strategic Partnership with Africa' in 1997.
10. The Paris Club is an informal group of 19 countries (primarily from the OECD) and chaired by the French treasury. Meeting every six weeks in Paris, it seeks 'to find coordinated and sustainable solutions to the payment difficulties experienced by debtor countries'. The IMF plays a prominent role in Paris Club negotiations, as any proposal to reschedule debt often requires the debtor state in question to have an active Fund program in place and be in good standing with reform efforts. Since 1956, 422 agreements with 88 debtor states have been reached. Prior to the Toronto Terms, the general strategy of the IMF with regard to LIDCS was to reach an agreement with creditor states to delay receipt of payments from debtor states while these states worked with the IMF. From 1976 to 1988, the Paris Club coordinated 81 non-concessional debt reschedulings with 27 LIDCs. See IMF (1999c: 5).
11. These included the Toronto (1991), Naples (1994), Lyon (1996), and Cologne (1999) terms.
12. The London Club, formed in 1976, is an advisory committee that represents the major creditor banks in negotiations with debtor states. The

London Club negotiates an agreement with the debtor state in question. Creditor banks with debt exposure then sign off on the agreement.

13. By 1996, highly indebted poor countries paid nearly half of their debt payments to multilateral creditors.
14. EBM 95/ 12, p. 14 as quoted by Momani (2010: 36).
15. Author interview with Fund staff member from the SPR department, Washington, DC, June 2011.
16. Author interview with Fund staff member from the African department, Washington, DC, June 2011.
17. Author interview with Fund staff member from the SPR department, Washington, DC, September 2011.
18. Author interview with Fund staff member from the African department, Washington, DC, June 2011.
19. IMF Official Website, IMF Factsheet: Poverty Reduction Strategy, http://www.imf.org/external/np/exr/facts/prsp.htm, date accessed 9 June 2014.

Bibliography

Bokkerink, S., and T.V. Hees. 1998. Eurodad's campaign on multilateral debt: The 1996 HIPC debt initiative and beyond. *Development and Practice* 8(3): 323–334.

Boughton, J. 2001. *Silent revolution: The International Monetary Fund 1979–1989*. Washington, DC: International Monetary Fund.

Boughton, J. 2012. *Tearing down walls: The International Monetary Fund 1990–1999*. Washington, DC: International Monetary Fund.

Busby, J.W. 2007. Bono Made Jesse Helms Cry: Jubilee 2000, debt relief, and moral action in international politics. *International Studies Quarterly* 51(2): 247–275.

Camdessus, M. 1990. Aiming for "high quality growth". *Finance & Development* 27: 10–11.

Cox, R. 1987. *Production, power, and world order: Social forces in the making of history*. New York: Columbia University Press.

Dornbusch, R., and S. Fischer. 1986. Third world debt. *Science* 234(4778): 836–841.

Frieden, J. 2006. *Global capitalism: Its fall and rise in the twentieth century*. New York: W.W. Norton & Company.

G-7. 1995. *Halifax Communique*. http://www.g8.utoronto.ca/summit/1995halifax/communique/index.html. Date Accessed 11 Oct 2010.

Gamarra, B., M. Pollock, and C.A. Primo Braga. 2009. Debt relief in low income countries: A retrospective. In *Debt relief and beyond: Lessons learned and*

challenges ahead, ed. C.A. Primo Braga and D. Dömeland, 11–34. Washington, DC: World Bank.

Gill, S. 2008. *Power and resistance in the new world order*. London: Palgrave Macmillan.

Glyn, A. 2006. *Capitalism unleashed: Finance, globalization and welfare*. Oxford: Oxford University Press.

Government Accountability Office. 2006. *Treasury has sustained its formal process to promote U.S. policies at the International Monetary Fund*. Washington, DC: GAO-06-876R 29 June 2006.

Green, D. 1995. *Silent revolution: The rise of market economics in Latin America*. London: Cassell.

Harvey, D. 2005. *A brief history of neoliberalism*. Oxford: Oxford University Press.

IMF. 1995a. *Issues and developments in multilateral debt and financing in the heavily indebted countries-preliminary considerations*, 7 February 1995. Washington, DC: IMF. Archive reference SM 96/57

IMF. 1995b. *IMF executive board minutes: 24 February 1995*. Washington, DC: IMF. Archive reference EBM/95/12.

IMF. 1995c. *Concluding remarks by the chairman-issues and development in multilateral debt and financing for the heavily indebted poor countries-preliminary considerations: 1 March, 1995*. Washington, DC: IMF. Archive reference BUFF/95/18.

IMF. 1995d. *Issues and developments in multilateral debt and financing in the heavily indebted countries-further considerations*. Washington DC: IMF.

IMF. 1996. *IMF executive board minutes: 24 February 1996*. Washington, DC: IMF. Archive reference EBM 96/34.

IMF. 1999a. *Annual report 1999*. Washington, DC: IMF.

IMF. 1999b. *IMF executive board minutes: 16 April 1999*. Washington, DC: IMF. Archive reference EBM 99/43.

IMF. 1999c. *From Toronto terms to the HIPC initiative: A brief history of debt relief for low- income countries*. Washington, DC: IMF. Archive reference WP/99/142.

IMF. 2000. *Annual report 2000*. Washington, DC: IMF.

Jessop, B. 1993. Towards a Schumpeterian workfare state? Preliminary remarks on post-fordist political economy. *Studies in Political Economy* 40: 7–40.

Momani, B. 2010. Internal or external norm champions: The IMF and multilateral debt relief. In *Owning development: Creating policy norms in the IMF and World Bank*, ed. S. Park and A. Vetterlein, 29–47. Cambridge: Cambridge University Press.

Mussa, M., and M. Savastano. 1999. The IMF approach to economic stabalization. *NBER Marcroeconomics Annual* 1999(14): 79–128.

Rapley, J. 2007. *Understanding development: Theory and practice in the third world*. London: Lynne Rienner.

Robinson, W. 2004. *A theory of global capitalism: Production, class, and state in a transnational world*. Baltimore: Johns Hopkins Press.

Ruggie, J.G. 1982. International regimes, transactions, and change: Embedded liberalism in the postwar economic order. *International Organization* 36(2): 379–415.

Rupert, M. 1995. *Producing hegemony: The politics of mass production and American global power*. Cambridge: Cambridge University Press.

United States House of Representatives, Subcommittee on General Oversight and Investigations. 1998. *Review of the Operations of the International Monetary Fund*, 21 April 1998.

Vetterlein, A. 2010. Lacking ownership: The IMF and its engagement with social development as a policy norm. In *Owning development: Creating policy norms in the IMF and World Bank*, ed. S. Park and A. Vetterlein, 93–112. Cambridge: Cambridge University Press.

CHAPTER 5

'Pro-Poor' Concessionary Lending: The PRGF

In 1999, the PRGF replaced the ESAF. Between 1988 and 1999, the ESAF served as the primary concessional loan instrument of the Fund, disbursing over US$10.7 billion in lending through 90 arrangements to 52 LIDCs.[1] For its supporters, the ESAF represented a critical tool to correct deeply embedded LIDC dysfunction tied to the residue of ISI development strategies. For its critics, the ESAF's prioritization of liberal market structural reform through strict conditionality requirements epitomized the worst aspects of 'top-down' Washington Consensus design and implementation. The replacement of the ESAF with the PRGF thus marked an important moment for the IMF. After nearly two decades of broad-based agreement that a 'one size fits all' liberal market development model served as the answer to macroeconomic instability and underdevelopment, the PRGF and its 'participatory, pro-poor' focus reframed the Fund's relationship to LIDCs. Formal recognition that poverty issues undermine macroeconomic stability and growth meant that lending arrangements and technical assistance programs now seriously and systematically engaged with these issues in LIDCs. The mode of interaction between the institution and its poorest member states also shifted considerably with the PRGF. Through the use of PRSPs, consultation and increased engagement with LIDC stakeholders emerged as standard operation procedure for the IMF.

Increased discontent regarding the liberalizing policies pushed by various multilateral institutions and initiatives in the 1980s and 1990s serves

© The Editor(s) (if applicable) and The Author(s) 2016

M. Hibben, *Poor States, Power and the Politics of IMF Reform*, International Political Economy Series,
DOI 10.1057/978-1-137-57750-4_5

as the backdrop for the creation of the PRGF. In addition to targeting the IMF, social movements and NGOs grew increasingly critical of liberalizing policies implemented by the World Bank, the newly created World Trade Organization (WTO), and the North American Free Trade Agreement (NAFTA). Poor economic performance across much of Africa and Latin America in the 1980s and 1990s, combined with the fallout from the Asian crisis, also spurred discord among elites and policy insiders concerning the merit of the Washington Consensus model. This combination of challenges—outside 'street heat' and advocacy of prominent insiders—provided increased leverage for those within the IMF who supported LIDC policy reform.

Another key component that sparked the creation of the PRGF concerned the manner in which the IMF implemented ESAF arrangements. After a period of increased intransigence in the late 1980s and early 1990s to critiques of its structural adjustment lending policies, Fund leadership shifted its position in regard to the importance of gaining stakeholder 'buy-ins' into policy design and implementation. A new 'participatory' process was deemed necessary to secure long-term support for IMF LIDC programs and the policies attached to them. Managing Director Michael Camdessus also played a key role in pushing for the PRGF and the broader agenda of poverty reduction in LIDCs. Several key senior staff members in the African department and the policy, development, and review department supported Camdessus and lobbied skeptical colleagues wary of integrating poverty issues into concessionary LIDC lending.

Chapter 5 begins its analysis of the PRGF reform by stepping back and examining the dynamics within the IMF at the height of the Washington Consensus period. It first explores how the conservative shift in economic thinking in the 1980s manifested itself within the IMF, particularly around how Fund staff framed the need to aggressively eliminate 'market distortive' laws and institutional structures in LIDCs. Chapter 5 then traces how Fund staff lobbied heavily for the 1987 ESAF, arguing that this facility and its increased surveillance capacity provided the necessary leverage to effectively produce structural and institutional reform in LIDCs. The chapter then examines how IMF management and staff initially dismissed growing critiques of its LIDC policy in the late 1980s and early 1990s. Rather than scale back its focus on LIDC structural reform through the ESAF and other policy initiatives, the IMF pushed harder for deep institutional reform through a focus on privatization and the roll out its 'good governance' program. Growing resistance from the mid-1990s to 1999

to the IMF and other liberalizing multilateral initiatives, combined with the fallout from the Asian crisis, provided an opening within the Fund to question the effectiveness of the ESAF. The chapter then traces the micro-dynamics from 1997 to 1999 within the IMF that led to the PRGF.

5.1 IMF LIDC 'Common Sense' at the Height of the Washington Consensus

Prior to the Washington Consensus period, IMF LIDC staff framed their lending policy decisions as a response to three interrelated dynamics commonly found in poor states. First, states in the early stages of development suffer from low levels of economic diversification and a high degree of export concentration in primary products. Due to the low price elasticity of demand on primary products, increases in export volume generally produce diminishing returns in terms of export revenue. Second, LIDCs experience high volatility in the demand for exports, export production, and prices of exports. This produces a difficult environment for managing balance of payment issues. Third, LIDC access to traditional financing is limited for covering deficits and high debt levels. Downward pressure is thus exerted on foreign currency reserve levels and subsequent increases in financing gaps. LIDCs with chronic balance of payments deficits thus face two related choices. They must first decide to what degree they will seek policies that correct balance of payment deficits in the short term or finance these deficits over longer periods. They then must choose the most appropriate forms of adjustment and financing based on their particular circumstances (Bird and Rowlands 2009).

Short-term solutions potentially involve adjustment by lowering aggregate demand, devaluation of currency, or import restrictions. The IMF advised against import restrictions or other protectionist measures. Currency depreciation, while an acceptable policy tool to lower trade deficits in the short term, also was not seen as a long-term solution. Drawing from the Polak model, the IMF instead consistently advocated that poor states correct balance of payment deficits by curbing internal demand. This often involved cuts in government spending, a deflationary monetary policy, and tax increases. Starting in 1974 with the non-concessionary EFF, a focus on structural reform emerged. In addition to policies of demand compression, deeper institutional reform was deemed necessary to address the chronic cycle of 'low savings, low investment, and low growth' in poor states. As discussed in Chap. 4, the 1982 Mexican crisis helped consolidate a policy

template that combined demand compression and structural market reform in LIDCs. The 1986 SAF and the 1987 ESAF combined structural reform with concessionary lending.

The IMF's support of demand compression and liberal market structural reform reflected the broader resurgence of conservative economic ideology in the 1970s and 1980s. Two schools of economics—monetarism and new classical economics—proved the most influential during this period. Monetarism, developed by economists associated with the University of Chicago, roots its analysis in classical liberal assumptions that markets free of distortion are efficient and equilibrating (Friedman and Shwartz 1963; Phelps 1967; Friedman 1968). Within this context, monetarism maintains that the amount of money in an economy is the primary variable that drives total spending and the overall level of economic activity and output. While long-term increases in money supply consistent with increases in the productive capacity of a society are desirable, short-term changes produce instability and inefficiencies. Monetary stimulus unrelated to underlying fundamentals, as seen in the global North in the 1970s, results in inflation with no guarantee of increased employment. Attempts to reduce inflation through a short-term decrease in money supply are also problematic due to what monetarists describe as 'adaptive expectations'. Economic output and employment are reduced but high wages and prices remain due to a time lag between changes in fundamentals and the market's perception of these changes (Chwieroth 2010: 73). Monetarists thus maintain there is a natural rate of unemployment proportional to a society's productive capacity and that government intervention to stimulate growth results in inflation with possibly little effect on increasing employment.

IMF historian James Boughton (2004: 5) asserts that monetarism 'had less impact on the IMF than on the economics profession at large, and its influence was felt primarily in efforts made to examine and ultimately reject it'.[2] Rather, Boughton argues that new classical economics, which emerged in the 1970s, has been the most influential school of economics following Keynesianism.

As with monetarism, new classical economics gained popularity in the 1970s as Keynesian inspired models failed to address the stagflation afflicting many industrialized economies. New classical economics, like monetarism, dismisses Keynesian assumptions of inefficient markets and roots its thinking in classical conceptions of prices, markets, and natural rates of unemployment. Proponents of new classical economics also maintain that Keynesian aggregate level macroeconomic models fail to account for

individuals' and firms' behavior in 'formulating expectations for a future that is substantially different from the past' (Willis 1981: 87–8).

New classical economics, however, diverges from monetarism in its conception of individual adaptability to changing market conditions. Monetarists maintain that markets clear in the long run, but short-term inefficiencies in markets exist due to adaptive expectations and the relative inflexibility of prices and wages to adjust quickly to shifts in money supply. These short-term dynamics impact aggregate demand, employment levels, and economic output.[3] New classical theory rejects the notion that markets and prices only clear over the medium and long term. Rather, individuals and firms constantly adjust to changing market conditions to maximize profit or utility. The aggregate effect of individuals and firms acting rationally and in real time guarantees that prices accurately reflect underlying fundamentals and quickly balance supply and demand. Individuals and firms also develop what economist John Muth (1961) describes as 'rational expectations' of future market direction. Economic actors learn to predict changes in government policies and also develop strategies to react to these changes such that profits and utility are maximized.

Through this process, new classical theorists argue that individuals and firms will also offset government policy aims, preventing them from having any real effect on aggregate demand and economic output.[4] As with monetarism, this translates into an aversion against 'activist' fiscal or monetary intervention (Willis 1981: 94). Rather, proponents of new classical economics instead advocate that governments focus on issues of market stability and intervene only to improve overall efficiency.

Along with the influence of monetarism and new classical economics on Fund staff, the IMF's focus on dismantling ISI policies in the post-1982 period also can be traced to ideas found in a series of influential publications in the 1970s supported by the Organization for Cooperation and Economic Development,[5] the National Bureau of Economic Research (NBER),[6] and the Brookings Institution.[7] These studies maintain that state-centered protectionist development models failed in poor states.[8] Following the 1982 Mexican crisis, two edited volumes focused on Latin America, published by the Institute of International Economics, reinforced similar themes.[9] Bela Balassa et al.'s *Toward Economic Growth in Latin America* (1986) underscored how inefficiency and corruption arising from state intervention in Latin America produced economic stagnation and dependency on global capital markets to finance deficits. John Williamson, in *Latin American Adjustment: How Much Has Happened?*

(1990), outlined a growing 'Washington Consensus' within the IMF, World Bank, the US government, and Washington (DC)-based think tanks concerning appropriate policy to reform indebted ISI states.

Contributions from two prominent liberal market economists, Anne Krueger and Jhagdish Bhagwati, also proved particularly influential within the IMF. Krueger's seminal 'The Political Economy of the Rent-Seeking Society', published in 1974 in *American Economics Review*, explained the adverse effects of import license competition on growth. Krueger argued that import licenses and other non-tariff trade restrictions create substantial economic rents since they legally grant favored or politically connected actors monopolistic control of market share. She highlighted that we should expect intense competition for these rents ('competitive rent seeking') that misallocate resources in the formal economy and incur subsequent welfare costs additional to that caused by tariff restrictions alone.[10] The high cost of winning market share via rents also incentivizes actors to turn to informal and illegal activities (bribery, smuggling, and black markets, for example) that can further undermine growth and development goals. Bhagwati generalized Krueger's argument to explore further how various market distortive policies create 'directly unproductive, profit-seeking' activities (Bhagwati and Srinivasan 1980).

Krueger, who went on to serve as the World Bank's Chief Economist (1982–1986), First Managing Deputy Director of the IMF (2001–2003; 2005–2006), and interim Managing Director of the IMF in 2004, reflected on what she described as a radical shift toward a free trade model in her 1997 presidential address to the American Economic Association:

> Ideas with regard to trade policy and economic development are among those that have changed radically…It is generally believed that import substitution as a minimum outlived its usefulness and that liberalization of trade and payments is crucial for both industrialization and economic development…And, while there are still some disagreements over particular aspects of trade policy both among academic researchers and policy makers, the current consensus represents a distinct advance over the old one, in terms both of knowledge and of the prospects it offers for rapid economic growth. (Krueger 1997: 1–2)

This 'consensus' on the merits of free trade remains deeply embedded in Fund LIDC policy positions.

IMF skepticism of protectionism and state intervention was also reinforced by the contributions of Robert Bates. Bates, in *Markets and States in Tropical Africa* (1981), studied how small, tightly knit coalitions of urban industrialists and workers in Africa politically organized themselves to maintain their economic benefits at the expense of the majority rural population.[11] Most common was the practice of fixing low producer prices to agricultural products. In this scenario, the marketing boards of parastatal agencies with monopoly control purchased from agricultural producers at artificially low rates and then sold at open (world market) prices. Along with this 'tax' on agricultural producers, governments applied price controls on basic foodstuffs. Subsidies tied to transportation, energy use, and post-secondary education also were seen as disproportionally beneficial for urban elites.

Another problem area highlighted by Bates and critics of ISI was overvalued exchange rates. The argument against an artificial overvaluation of currency focused on the following themes. First, overvaluation represented a tax on exports and a subsidization of imports. Discrimination against exporters lowered their ability to compete in foreign markets, lowered foreign exchange receipts, and subsequently undermined the state's ability to obtain imports. Second, overvaluation put pressure on industries that competed with imports and these interests lobbied for protectionist measures that further distorted markets. While targeted short-term devaluation of currency proved necessary to 'correct' for ISI overvaluation, IMF staff advocated that LIDCs ultimately strive for market driven exchange rates that reflect underlying macroeconomic fundamentals.

Ideas drawn from monetarism, new classical economics, and the prominent economists outlined above heavily influenced the thinking behind SAF and ESAF lending conditionality. The pursuit of individual self-interest would only produce general societal benefits in LIDCs if ISI was dismantled and market forces enhanced. Otherwise, the behavior of politically connected and powerful urban industrialists and workers would reinforce patterns of nepotism, corruption, and rent seeking in LIDCs (Rapley 2007: 75). In their push for addressing structural issues in LIDCs, Fund staff (IMF 1999d: 10) identified nine specific areas tied to the ISI development model responsible for poor economic outcomes. These included:

1. Institutional rigidities and structural distortions that had undermined the effectiveness of market signals.
2. Inefficient public enterprises heavily involved in manufacturing, agricultural, mining, and utilities.

3. Official price controls set by state monopolies and public marketing boards.
4. Highly distorted and regulated labor markets.
5. Excessive protectionism through use of tariffs, quotas, subsidies, and support of state trade monopolies.
6. Overvalued exchange rates designed to support increased internal consumption.
7. Underdeveloped financial markets.
8. Weak institutional and governing capacity.
9. Lack of investment in human capital.

In response, reforms pushed through the SAF and ESAF prioritized the following areas:

1. Reduction of the role of the state in controlling prices, intervening in exchange and product markets, and engaging in production and distribution. This was achieved through liberalization of trade, privatization of public industries, elimination or cut back of subsidies, and deregulation of labor markets.
2. Reorientation of government spending from inefficient uses towards greater investment in human capital, particularly health and education, and basic infrastructure.
3. Establishment of 'modern' tax system heavily reliant on value added tax (VAT).
4. Reduction and maintenance of inflation in the single digit range. (IMF 1999d: 18–9)

The ESAF also helped ease the external debt burden of LIDCs to facilitate structural reform. To do so, it offered greater resources for LIDCs, more generous concessional terms, and support for debt restructuring initiatives.

5.2 Resistance to Structural Reform, Good Governance, and High Quality Growth

The merging of structural adjustment with concessionary lending through the SAF and ESAF involved greater IMF surveillance than with previous LIDC arrangements. With the creation of the 1986 SAF, the IMF

introduced the PFP. Using the PFP, member states produced a three-year adjustment plan that spelled out the policies that would be enacted to correct macroeconomic and structural problems that undermined economic growth. The PFP process also included World Bank participation at various steps. When a LIDC requested a SAF loan, Fund and World Bank staff collaborated to draft an initial PFP, the terms of which would then be negotiated with country authorities. When complete, the World Bank's executive board reviewed the agreement and forwarded its recommendation to the IMF's board.

Camdessus and IMF staff believed that the SAF's conditionality requirements were too lenient and any future framework of concessionary lending to LIDCs needed to more seriously address issues of structural reform. Staff also maintained that the annual disbursement of SAF loans gave the Fund little leverage in monitoring LIDC performance. Through the creation of the ESAF, they proposed more frequent reviews of concessionary loan programs (Polak 1991: 8–9). As articulated by an IMF staff member:

> For staff, the transition from SAF to ESAF recognized that because of the importance of structural reforms, those had to be part of conditionality. It wasn't enough to just label the facility 'structural'…you actually had to have the program be designed in a way where structural reforms were put on the same level as standard quantitative performance criteria used for macro policies.[12]

When adopted in 1987, the ESAF linked the semiannual disbursement of funds to the successful completion of PFP negotiated 'structural benchmarks' and 'structural performance criteria'. Structural performance criteria, eliminated in 2009, consisted of measurable benchmarks set by the executive board that a member state was expected to achieve before further loans are disbursed. Failure to meet performance criteria required a waiver from the executive board for any future distribution of loan resources. Structural benchmarks, still in use, include less easily measurable reforms that the IMF sees as essential toward meeting goals set out by the program in question.

Not surprisingly, forced recession, liberal market structural adjustment, and increased IMF surveillance failed to garner broad-based support from a variety of actors in LIDCs. Elites who were tied to the state sector, and urban working and middle classes who benefited from the ISI model, proved particularly militant in their opposition to IMF reform. Within

the IMF, this discontent manifested in the arguments made by executive directors representing poor states. Comoros Samba (Zaire), for example, lobbied against increased conditionality requirements in the debates leading to the creation of the ESAF:

> Finally, could the staff elaborate on the statement that "it is the intention of management to propose a reinforcement of Fund policies to improve the quality of structural adjustment loans?" If so, I hope this doesn't mean an increase in conditionality. If so, the structural adjustment arrangement will lose its intended character and will become more like a stand by arrangement. We should try to avoid this at all costs. (IMF 1987: 29)

Executive Director Sengupta (India) argued that the SAPs 'should be sensitive to the specific circumstances of each borrower, particularly with respect to the timing and sequence of policy change…Flexibility should be the order of the day, not a mechanistic formula' (IMF 1986: 5). Executive Director Alfidja (Niger) raised concerns about the IMF's focus on labor market reforms and their impact on social stability: '[T]he Fund has been recommending sweeping reform in member countries' employment policies that invariably has adversely affected the social fabric of those countries…pointing to an even greater need for the Fund to…exercise considerable caution in that field' (IMF 1986: 19).

Outside the halls of the IMF, 146 protests against policies recommending fiscal and monetary austerity and structural adjustment lending were documented in poor states between 1976 and 1992 (Scholte 2000: 173). In Africa, cutbacks to food subsidies and public services engineered by IMF lending conditionality sparked violent clashes in Egypt, Morocco, Tunisia, Sudan, Tanzania, Ghana, Nigeria, and Zambia throughout the 1980s. Violent protests in middle-income countries in Latin America targeting IMF austerity and structural adjustment also made headlines, including the 1989 'Caracazo' riots in Venezuela where over 600 individuals were killed. By the early 1990s, anti-IMF protests also took place in India, Nepal, Iran, the Ivory Coast, Nigeria, and Zimbabwe (Walton and Seddon 1994).

Several additional factors beyond social movement mobilization challenged the liberal market development model in the early 1990s. The success of Asian economies, built around state-centered export-led industrialization, appeared to contradict the strategies pushed by the IMF and World Bank. Low and negative growth rates in LIDCs that had

implemented structural adjustment policies also led to increased internal and external criticism of Washington Consensus programs and policy directives. Within the IMF, these challenges were primarily met with a defensive posture until the late 1990s. Rather than address the concerns of policy insiders and NGO critics, the Fund and World Bank rolled out a new program focused on 'good governance'.

Proponents of good governance argued that the primary variables responsible for poor growth outcomes in LIDCs that had entered IMF and World Bank agreements included corruption and poor government institutions that blocked structural reform. Structural adjustment was not to be abandoned, but rather deepened by supporting accelerated privatization efforts and restructuring government institutions such that rent seeking and corruption would be reduced.[13]

This position was captured in the IMF's 1997 overview of its role in governance issues where the staff was advised to highlight how corruption and rent- seeking could sabotage the benefits derived from structural market reform:

> The potential risk that poor governance could adversely affect private market confidence and, in turn, reduce private capital inflows and investment… should also be brought to the attention of the authorities. IMF policy advice should …be based on the broadly agreed best international practices of economic management and on the principles of transparency, simplicity, accountability, and fairness. (IMF 1997b: 7)

The argument for deepening structural reform was also tied to the narrative of globalization. As articulated by Managing Director Camdessus, the opportunities born from increased capital flow could only be realized if LIDCs liberalized, privatized, avoided activist fiscal and monetary policy response, and built transparent institutions:

> First and foremost, countries must maintain sound domestic macroeconomic policies that will attract and retain the market's confidence. In particular, policymakers must recognize that the scope for countries to depart from traditional macroeconomic discipline is now sharply reduced…Trade liberalization, privatization, and the establishment of transparent regulatory systems…help create an environment in which capital inflows can be more readily used for long-term productive investment…At the same time, it is critically important to establish solid domestic institutions—especially independent central banks and strong domestic banking systems—that can

> accommodate tighter fiscal and monetary conditions as the need arises. (Camdessus 1995: 3–4)

Along with support of good governance and 'traditional market discipline', the new era of globalization also required that the Fund increase its surveillance role in member states.[14] As outlined by Camdessus (1995: 6), in order to avert the cascading effects of economic and financial crises, the IMF needed a 'more continuous, intensive, and probing' relationship with LIDCs.

5.3 Cracks in the Washington Consensus

As documented in Chap. 4, pressure exerted by social movements and NGOs on the IMF and World Bank proved critical to the adoption of the 1996 HIPC and 1999 HIPC II. The upsurge in popular protests and social movement mobilization against liberal market policies pushed by various multilateral institutions and initiatives in the 1994–1999 period also played a role in the IMF's replacement of the ESAF with the PRGF. Campaigns focused on the 50th anniversary of the IMF and World Bank in 1994 targeted structural adjustment policies and its relationship to LIDC debt issues (Smith 2008: 100–1). In the Americas, the 1994 Zapatista uprising against the free trade policies of the NAFTA coincided with a growing number of anti-IMF and World Bank protest movements across the region. From 1995 to 2001, 281 protest campaigns and 961 protest events targeting various aspects of liberalization and privatization policies took place in Latin America and the Caribbean (Almeida 2007: 128). In addition, the creation of the WTO in 1995 catalyzed the mobilization of a broad-based 'anti-globalization' movement deeply critical of the WTO, IMF, and World Bank. High profile protests targeting the new WTO, including the 1999 'Battle in Seattle', further mobilized popular pressure against liberal market policies. Social movement pressure also proved critical in blocking the OECD's Multilateral Agreement on Investment (MAI) in 1998 and the US-backed Free Trade Areas of the Americas (FTAA) in 2001.

Internal dissent among global elites with regard to the wisdom of the Washington Consensus model also increased following the Asian crisis of 1997–1998. At venues that included the 1999 World Economic Forum (WEF) annual meeting in Davos, elites expressed their concern about the limitations of free markets and discussed how to reform globalization in a more inclusive manner:

> Crucial discussions were held to look at where globalization is taking us and how we can make it a more responsible process. In the midst of the Asia crisis, after the financial collapse in Russia, and the Brazilian crisis…it was clear that globalization and free markets left to themselves do not always produce the desired or necessary results for society at large. There was wide spread agreement that although a free market system is the best and most efficient, there are inequalities that government, in new partnerships with other sectors of society, needs to address. (World Economic Forum 1999: 8)

Direct references were also made to the IMF's role in the Asian crisis and a need for the Fund and multilateral institutions to 'adjust their modus operandi and programmes to the new requirements created by the global economic environment' in order to respond to the 'growing backlash of large segments of the world's population' (World Economic Forum 1999: 8).

These themes of crisis, backlash, and a more inclusive form of globalization dominated the discussion a year later at the 2000 Davos meeting. As described by a WEF summary of the event, the fallout from the failed 1999 Seattle WTO's meeting was a wakeup call for those in Davos who championed globalization:

> Two themes dominated the Annual Meeting in Davos this year- the Internet and Seattle. And while opinion was fairly unanimous on the former – it's going to change the world – few exactly knew what to do with the latter. One and a half decades into the technological revolution there is an increasing number of people crying "stop the world, we want to get off." In Seattle, the protesters may not have spoken with a clear voice that was heard above all others. Although the 20,000 plus protesters that hijacked the agenda probably had as many individual goals, they shared a common view that globalization has somehow turned the planet into a commodity. It was certainly easier in Davos to forge an ideological consensus in favor of globalization, but in the aftermath of Seattle, there also seemed little doubt that the system needed reworking. (World Economic Forum: 2000: 18)

Within this context of 'reworking the system', a panel led by British Prime Minister Tony Blair focused on the difference between market economy and market society. 'The market economy has clearly won the battle. While people are happy—even eager—to live in a market economy, most do not want to live in a market society. The challenge addressed in Davos is to ensure that society is more than just the market' (World Economic

Forum, 2000: 10). Even Bill Clinton, perhaps the most ardent cheerleader for trade and financial liberalization throughout the 1990s, now argued that these same policies bore some responsibility for undermining working class support of free trade and globalizing capitalism (Robinson 2004: 163) In response, Clinton focused on integrating concerns raised by the International Labor Organization (ILO) into WTO, IMF, and World Bank policy decisions. Clinton also pushed the WTO and IMF to address the concerns of the NGO community (Rupert 2000: 143–5).

Prominent economists including Joseph Stiglitz, Jeffrey Sachs, Paul Krugman, and Jagdish Bhagwati also called for alternatives to the macroeconomic and development strategies pushed by the IMF.[15] Stiglitz, who served as Chief Economist of the World Bank from 1997 to 2000, critiqued the IMF and the US Treasury in regard to their development policy positions and their response to the Asian crisis. Stiglitz argued that the Fund pushed an 'ideology of market fundamentalism' that undermined both the benefits of globalization and democracy. Bhagwati (1998), a staunch advocate of multilateral free trade, maintained that the IMF had adopted short sighted policies in Asia, and that its broader programs, underwritten by 'gung-ho international financial capitalism', had been pushed by the 'Wall Street-Treasury Complex'.[16]

Critiques of the IMF, following the Asian crisis, also came from conservative voices, particularly within the USA. In return for the support extended to the Clinton administration's funding requests for the IMF in 1998, the Republican controlled Congress created the Financial Institution Advisory Commission (known more commonly as the 'Meltzer Commission') to review the IMF and other multilateral institutions. The Meltzer Commission revealed multiple IMF policy failures in LIDCs and called for a drastic reduction in the role for the institution in structural adjustment lending. The majority among 11 commissioners argued that future IMF lending to LIDCs should instead be short term only (no longer than 120 days) and based on the credit viability of the state in question (no lending to countries with questionable credit). The Meltzer Commission also unanimously recommended the write-off of debt for heavily indebted poor countries (Lavelle 2011: 143–52).

IMF documents and interviews with LIDC staff highlight the staff's growing awareness of resentment and pushback to its policies by the late 1990s. Fund staff, for example, specifically recognized and articulated the

need to secure 'buy-ins' from various actors in LIDCs as seen in a 2001 staff paper titled 'IMF Conditionality and Country Ownership of Programs':

> Ownership matters because it directly affects program implementation. When the program is owned by the country, decisions on such action are likely to be made quickly and in support of the program, which makes is more likely that the program will succeed. Furthermore, ownership will make it easier to generate domestic political support for the program, since it is likely to be seen, as an indigenous product, rather than a foreign imposition.[17]

Staff interviewed also recalled a shift toward a more consensual approach with LIDC authorities following the turmoil of the 1995–1999 period:

> One area where there has been a sea-change in the last ten to fifteen years is that we are turning more and more to the countries and saying, 'What's your plan?, What do you think? How can we help you do this?', rather than 'This is the answer, the Washington Consensus, here is the recipe'.[18]
>
> We noticed with the debt campaigns in the late 1990s how important it was that certain topics be discussed in the public domain and that we take into account what people are thinking about these things and listen carefully to what they say.[19]
>
> Structural adjustment had gotten a very bad name over the ten years from 1986, particularly within the recipient countries. I think it is still debatable whether that was a cover for their own failings, but structural adjustment certainly coincided with a time that really was very hard for low income countries. It is natural that people would say that it was the IMF's fault. You still hear that a lot in Ghana and Nigeria as they went through very difficult periods. So our changes reflected at some level the pressure from the African countries on our policy who said we couldn't go on like this, that we had to rethink how you do business.[20]

The IMF's shift toward a more consensual approach was noted by several LIDC country authorities. Former Permanent Secretary of Tanzania's Minister of Finance, for example, noted a shift in the Fund's 'willingness to listen' following the Asian crisis:

> The relationship between the IMF and Tanzania has become stronger over the past decade. Two most important factors explain this positive trend: The first is Tanzania's commitment to reform…with enhanced ownership to the reform agenda. The second is the IMF's willingness to listen and allow Tanzania to determine policies suitable to Tanzania's circumstances and

the IMF responding with adequate support and minimum conditionality… which was not the case before. (Mgonja 2009: 105)

5.4 External Pressure and Internal IMF Debates Leading to the PRGF Reform

Initial debate within the IMF in regard to LIDC structural adjustment lending in the early 1990s revolved around if the concessionary ESAF should be temporary or permanent. When adopted in 1987, the ESAF was designed to be a temporary facility. LIDCs would receive this three-year concessionary loan financed by the contributions of IMF member states only once. Despite assurances from staff that the three-year concessionary window was sufficient, donor states lobbied to extend the life of the ESAF and the ability of LIDCs to access its resources. In 1994, all remaining funds designated for the SAF were transferred to the ESAF Trust, which increased ESAF assets by 40 % (Boughton 2012: 641). Starting in 1995, Managing Director Camdessus lobbied skeptical staff and executive directors for a permanent ESAF.

As documented in Chap. 4, NGO pushback to a 7 February, 1995 staff paper that downplayed the issue of multilateral debt in LIDCs proved critical to the adoption of the HIPC in 1996. In this same paper, staff maintained that a combination of bilateral debt relief, structural adjustment, and improved external market conditions meant that LIDCs would no longer need access to concessionary terms beyond the end of the decade. Executive Director Huw Evans (UK) was skeptical about the staff's conclusions on the issue of concessionary lending and pushed for a permanent ESAF. Despite the concerns of Evans and Camdessus, the executive board ultimately accepted the staff's position. This quickly changed in 1996 due to the linkage of the ESAF with the newly adopted HIPC. Since LIDC access to HIPC debt relief required a three-year track record of successful structural adjustment through the ESAF, the ESAF was now considered a permanent facility (Boughton 2012: 642–3).

Despite its new permanent status, structural adjustment policies associated with the ESAF were increasingly critiqued by NGOs, social movements, and elites skeptical of liberal market development strategies. This pressure led to an extensive review of the ESAF. An internal review of the ESAF completed by the policy, development, and review department in 1997 noted that only eight out of 36 LIDCs had fulfilled scheduled

structural targets. It placed blame on 'factors outside the IMF's control' that included political instability and a 'flagging commitment' on the part of LIDC authorities to implement structural reforms, particularly in the areas of public enterprise and banking systems. Through more effective collaboration with the World Bank, the report called for 'more intensive monitoring, supported by more frequent disbursements' in problematic cases. The report also advocated that the IMF remain dedicated to the following policies through ESAF conditionality: sustained and low inflation rates preferably in the single digits; trade liberalization; privatization; the creation of an effective banking system; and institutional and legal reform that supported private sector activity. Areas in need of increased expenditure in LIDCs included health, education, and social safety nets (IMF 1997c).

Along with the internal review, the IMF also commissioned an external review of the ESAF. Completed in 1998, the review supported the IMF's position that liberal market structural reform was the best option for achieving LIDC economic and development objectives. However, it highlighted problems in the manner in which the Fund implemented the ESAF. The report's main critique focused on the lack of country ownership and 'buy-in' to structural adjustment and tied this to the theme of IMF inflexibility in negotiating ESAF conditional terms:

> The most common complaints from which we heard but few dissenting voices concerned the Fund's perceived "inflexibility" in negotiation and its "insensitivity" to domestic political constraints…we believe that there is more than a grain of truth in these widespread complaints. We heard complaints about Fund "inflexibility," even from Bank sources. The persistent concerns about the loss of national ownership comes from the feeling that governments are left no choices in negotiations, that the staff come from a fixed position…and that alternatives are often dismissed much too summarily and without objective appraisal. (IMF 1998: 55)

The review also revealed that a closer assessment of the social costs of adjustment on the poor was required and that there was a lack of effective IMF-World Bank collaboration in LIDCs.

The external review's focus on creating LIDC ownership of development strategies also coincided with the proposed PRSP framework supported by Managing Director Camdessus (see Chap. 4). Between October 1998 and December 1999, Camdessus lobbied for a new LIDC conces-

sionary lending facility that would replace the ESAF and tie concessionary lending to poverty issues through the use of PRSPs. On August 30, 1999, he argued before the executive board that a new way of thinking had to emerge in the IMF in regard to LIDC policy: 'we have made important strides in increasing the attention given to poverty reduction and social sector issues in ESAF programs. It is time to consolidate this progress and formalize some of the reforms envisaged for transforming the ESAF into a new renamed instrument, not least so that it can play the role foreseen for it in the HIPC cases'(IMF 1999e: 32).

At an executive board meeting on 13 September 1999, Camdessus more specifically outlined his case for reform:

> The current framework that ties the policies in ESAF-supported programs to poverty reduction is insufficiently comprehensive and lacks the elements needed to ensure the consistency of these policies with the country's social goals and vice versa…To remedy these problems, the ESAF must be made to benefit from an open and comprehensive approach that starts with an understanding of the main obstacles to growth and poverty reduction, and iterates toward a constellation of macroeconomic, structural and social policies sufficient to achieve realistic and monitorable goals for poverty reduction…Hence the proposal-which has the joint support of both Bank and Fund managements-to create a new comprehensive vehicle, the Poverty Reduction Strategy Paper, that is government-led, poverty-focused, based on an open and consultative process, and from which all ESAF and IDA operations should stem. (IMF 1999f: 4–5)

The proposal was most enthusiastically supported by Executive Directors Lissakers (USA), Pickford (UK), Milleron (France), Kiekens (Belgium, Austria, and Eastern Europe), Fiani (Italy, Portugal and the Mediterranean) and Hansen (Nordic and Baltic States). Lissakers, for example, defended Camdessus' call for comprehensive reform of the ESAF that integrated poverty and social development issues into concessionary lending: 'We do need a more fully developed integrated strategy….We fully support the establishment of the proposed procedures for PRSPs as a starting point for both the Bank and the Fund operations, with the PRSP replacing the PFP over time' (IMF 1999f: 78). Support for a focus on poverty reduction was also shared by Pickford: 'The poverty reduction strategies developed by countries to serve as the basis for Fund and Bank supported programs are clearly the right way forward…it seems clear that the Fund has a key role in poverty reduction' (IMF 1999f: 25–6).

Executive Directors Yoshimura (Japan) and Wijnholds (Holland and the Caucuses), while generally supportive of ESAF reform, expressed some reservations in regard to the Fund's traditional mission and a new focus on poverty reduction. For Yoshimura, 'the Fund should…deal with social policy issues only in-so-far as they are necessary to achieve its main purpose, which is to realize macroeconomic stability...sound macroeconomic policies should not be compromised for the sake of social policy concerns'(IMF 1999f: 40–1). Winjholds argued along similar lines: 'I do not think it would be expedient to turn the Fund into a multidisciplinary institution. The Fund should do what it does best: offer macroeconomic policy advice. The Fund is not properly equipped to advise on social issues' (IMF 1999f: 14). For Executive Director Esdars (Germany), reform equated to the maintenance of a successful macroeconomic policy: 'Effective poverty alleviation requires at first the full commitment of the countries themselves to tackle the roots of poverty, to restructure the economy and to pursue macroeconomic policies that ensure a sustainable high-quality growth process' (IMF 1999f: 85).

LIDC reactions were mixed. Executive Director Barro Chambier argued that 'we should strongly support the MD's proposal that the PRSP underlining the link [between] debt relief [and] poverty reduction be an integral part of PFPs, or ultimately could replace the existing framework' (IMF 1999f: 75). Executive Director de Morais was broadly critical of the proposal and instead argued for increasing ESAF funding (IMF 1999f: 93). These concerns were shared by Shalan (Egypt and Arab states) and Kelkar (India, Bangladesh, Bhutan, and Sri Lanka) who were wary of 'mission creep' into poverty areas. Another area of concern shared by middle-income and poor state executive directors involved the notion that the proposed replacement of the ESAF would set specific quantitative targets on social spending levels. Executive Director de Morais worried that 'earmarking funds for social sectors would detract us from the multidimensional efforts and flexibility that should be embedded in any poverty reduction strategy' (IMF 1999f: 92). Kelkar was even more specific in his concerns: 'In sum, we do not agree to the Fund incorporating structural benchmarks or performance criteria related to social safety nets or social reforms or social issues at large' (IMF 1999f: 18).

Interviews of LIDC staff members also point to broad initial skepticism of the PRSP framework and tying it to ESAF reform:

> The [majority of] staff had concerns from various angles…a lot of people had problems with the practicality of the PSRP process that required a great deal of coordination. Some people were concerned about branding, putting poverty reduction up there as the sort of headline on our facility. Some people thought it represented mission creep. Some people thought we were taking too much responsibility as the Fund on an issue that we had little experience.[21]
>
> For Fund staff, the notion that all of a sudden we would be involved in poverty reduction came as a strain at first. Wasn't poverty reduction the job of the World Bank? That was my reaction. This wasn't the way we do things.[22]

Camdessus also raised eyebrows among staff when he reversed the causal link between poverty and growth:

> The staff view was that macroeconomic stability was necessary for growth and growth was necessary for poverty reduction…At the same time, Camdessus, in his last days, was pushing very, very hard. He wanted to go one more step. We had said, 'First, macroeconomic stability, then growth and poverty reduction'. He wanted to close the circle and say that poverty reduction leads to growth. There was a lot of work done trying to show that and he pushed in that direction. The institution was not comfortable doing that.[23]

While the majority of the staff was skeptical of the adoption of PRSPs and ESAF reform, several key senior staff members were sympathetic to a shift in policy direction:

> There were certain IMF staff who were supportive and understood the stakes…But there were often lone voices in the wilderness. It was against a bit the grain and there was a need for a certain number of us to push against the culture that pushed aside and minimized this work.[24]

For these staff members, the main argument toward a more aggressive stand on poverty reduction focused on the fact that despite decreased balance of payment gaps in the 1980s and 1990s, LIDCs had stagnant growth rates. As with the shift in thinking that accompanied the adoption of the HIPC II, this also challenged the primary assumptions of the Polak model:

> With the Polak model, the assumption is the faster you close the balance of payments gap, the faster you will grow. The old way of thinking in the 1980s and 1990s was to develop a plan that allows a balance of payments gap that lets you go to zero. In that framework, you want to tighten and close the balance of payment gap because that gap is created by bad policy. That was the business of the 1980s and early 1990s. The thought was, if you close all these gaps, all these countries will start growing. But they weren't. And that's where the institution woke up to the fact that development isn't just about macroeconomics. That is where you saw Camdessus saying it is about poverty reduction and growth, it is not about structural adjustment anymore. Structural adjustment was closing that gap. Poverty reduction and growth is about opening that gap.[25]

Along with the support of a few strategically situated staff members, the IMF reported that public pressure also was a variable in the adoption of the PRSP and PRFG. As described in the Fund's 2000 Annual Report, 'the persistence of poverty—and mounting public pressure—underscored that more had to be done…In effect, the IMF transformed the ESAF into the PRGF to make poverty reduction a key element of growth oriented, country-owned strategy by combining concessional lending from the IMF in support of appropriate macroeconomic policies with antipoverty assistance from the World Bank and other development agencies' (IMF 2000: 49–50). NGOs were also broadly supportive of reforms focused on poverty reduction. Oxfam (2001: 4), for example, 'welcomed this new approach as an opportunity to develop economic policies which are genuinely country-owned, and which have poverty reduction as their central aim'.

Throughout August and September 1999, Camdessus intensified his efforts to reform the ESAF into a permanent concessionary lending facility formally tied to poverty reduction. By August, Camdessus had secured commitments from bilateral donors and support from the executive board to create the PRGF-HIPC Trust. On 26 September, the interim committee endorsed the proposed ESAF reform championed by Camdessus and stipulated that the new facility would: (1) require a PRSP in order to access funds; (2) support 'faster sustainable growth' through a focus on poverty reduction; (3) increase focus on good governance, and (4) give high priority to 'reform measures critical to achieving governments' social goals' (Boughton 2012: 645–6). On 22 November, 1999, the PRGF replaced the ESAF.

5.5 Conclusion

The IMF's adoption of the PRGF in 1999 was in part a result of broader tension points found in late twentieth-century global capitalism and global governance. Along with the economic and political fallout from the Asian crisis, the 1994–1999 period witnessed the increased extensity and intensity of protest movements and elite critiques of the Washington Consensus paradigm pushed by the IMF and other powerful multilateral institutions. The culmination of these tensions produced openings in the IMF to rethink its concessionary lending program. As documented by the executive board minutes and the interviews cited above, Managing Director Camdessus was the primary individual who pushed the resistant IMF staff to rethink how it conceptualized the relationship between poverty and IMF LIDC policy. Several senior staff members also supported these efforts. These individuals were situated in powerful positions in the institution and thus were able to assert leverage on fellow colleagues wary of the new 'poverty' agenda. Camdessus and those sympathetic to the replacement of the ESAF also shared preferences with powerful states. Unlike the HIPC case, low preference heterogeneity among powerful states, allied with the position of the Managing Director, allowed reluctant staff little room to resist or shape the adoption of the PRGF and PRSPs. Unlike the HIPC and HIPC II, NGOs played a more indirect role in the PRGF reform. Raising awareness in regard to the problems of the ESAF in the mid-1990s represents their primary contribution to this shift in IMF LIDC policy.

Specific to IMF LIDC staff, the adoption of PRGF and PRSPs caused a primary rethinking of some of the components of the Polak model. Rather than follow a model designed to always close short-term balance of payments deficits, a more nuanced approach emerged that recognized that addressing poverty issues might require short-term balance of payment gaps to increase in the short and medium term. Despite this shift, two broader components of IMF LIDC 'common sense' remained unchallenged for the next decade. First, among the majority of development economists and IMF staff, the turmoil of the late 1990s did not produce a broad-based rethinking of macroeconomic policy positions adopted during the Washington Consensus period. A 'pro-poor' policy agenda did not mean that an 'activist' monetary and fiscal policy should be adopted. Second, a 'pro-poor' agenda also did not translate into a rejection of market driven development. However, the manner in which IMF LIDC lending policy was designed and implemented significantly changed through

the 'participatory' PRSP process. Increased participation and consultation with LIDC stakeholders served to deepen trust and poor country 'buy-in' into concessionary lending arrangements. As highlighted by both constructivist and neo-Gramscian scholars, this signaled that the institution's legitimacy was challenged in this period and that a conscious effort emerged to rebuild and strengthen poor country support of concessionary lending arrangements.

Notes

1. IMF Official Website, IMF Factsheet: IMF Concessional Financing through the ESAF, http://www.imf.org/external/np/exr/facts/esaf.htm, date accessed 9 June 2015.
2. This is arguably overstated as several prominent policy positions consistent with monetarism shaped Fund policy directives and debates in the 1980s and 1990s. First is the notion that the primary role of monetary policy is ensuring price stability rather than a focus on issues of full employment. Second, given the political pressure for short-term inflationary stimulus, the most effective institutional arrangement to promote price stability is one where central banks are independent and follow fixed rules rather than ad hoc discretions when instituting monetary policy. And third, monetarists argue against capital controls, maintaining that volatility is a symptom of speculators and investors responding rationally to underlying policy and institutional weakness. Capital movement thus is a corrective mechanism rather than a variable in and of itself that causes economic turmoil. This argument was fundamental to the efforts led by Managing Director Camdessus and First Deputy Managing Director Stanley Fischer in the late 1990s to unsuccessfully lobby for the Fund executive board to amend the Articles of Agreement to include jurisdiction over capital controls.
3. If an economy sees a decrease in money supply, for example, consumption and aggregate demand fall. As prices and wages are generally inflexible, they fail to quickly respond to reduced demand. This results in a drop in production and increased unemployment.
4. New classical theorists assume the following responses during a hypothetical period of government monetary expansion designed to increase output and employment. In anticipation of inflation, consumers will spend on goods and services before prices rise. Firms, for their part, will raise prices. Unemployed individuals will adjust to inflationary expectations and hold out for higher wages. Government expansionary policy will thus produce immediate increases in nominal demand and lower supply that results in no

change in aggregate output or unemployment levels and higher price levels.

5. See Little et al. (1970) and Shaw (1973).
6. See Bhagwati (1978) and Krueger (1978).
7. See McKinnon (1973).
8. For a more in-depth look at influential neoclassical economists and their impact on development theory in the 1980s, see Rapley (2007: 67–86).
9. The Peterson Institute for International Economics (formerly the Institute for International Economics) in Washington, DC, was founded in 1981 and remains among the most influential think tanks concerning international economic policy.
10. Monopolies and their opportunity costs on welfare outcomes were initially modeled by Gordon Tullock (1967). Krueger, however, was the first to coin the term 'rent seeking'.
11. As highlighted by Rapley (2007: 73–4), Bates drew from Mancur Olson's (1965) theory of collective action in his study to explain why large rural populations failed to politically organize to dismantle ISI policies supported by small, tight knit groups of urban elites.
12. Author interview with Fund staff member from the SPR department, Washington, DC, June 2011.
13. The IMF described privatization efforts as a 'second-stage' strategy of structural adjustment.
14. The themes of increased surveillance and institutional liberalization in LIDCs were also reinforced by the Uruguay Round of the GATT (lasting from 1986 to 1994) and the formation of the World Trade Organization in 1995. Three trade agreements were formed during the Uruguay Round that extended multilateral trade policy beyond just manufactured and agricultural goods. These included the General Agreement on Trade in Services (GATS), the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs), and the Agreement on Trade Related Aspects of Investment Measures (TRIMs). The GATS, TRIPs, and TRIMs were incorporated into the newly formed WTO along with the controversial Dispute Settlement Body (DSB). A state can lodge a formal grievance to the DSB if they believe another member state has violated its rights under WTO agreements.
15. Stiglitz was fired from his position of chief economist of the World Bank in 1999 for his pointed critique of the IMF and the US Treasury in regard to their development policy positions and response to the Asian crisis.
16. For more on these two positions, see Chap. 13 in Bhagwati (2004). Bhagwati argues that the Asian crisis was caused by 'hasty and imprudent financial liberalization' underwritten by 'gung-ho international financial capitalism' pushed by the 'Wall Street - Treasury Complex'. He describes the Wall Street-Treasury Complex as follows: 'This is a loose but still fairly

coherent group of Wall Street firms in New York and the political elite in Washington, the latter embracing not just Treasury but also the State Department, the IMF, the World Bank, and so on.' He made similar arguments in a 1998 publication in *Foreign Affairs*. See Bhagwati (1998).

17. M. S. Khan (2001) 'IMF Conditionality and Country Ownership of Programs', IMF Working Paper No. 01/142, 25 February 2001 as cited by Rückert (2007: 103).
18. Author interview with Fund staff member from the African department, Washington, DC, June 2011.
19. Author interview with Fund staff member from the SPR department, Washington, DC, September 2011.
20. Author interview with Fund staff member from the African department, Washington, DC, September 2011.
21. Author interview with Fund staff member from the SPR department, Washington, DC, June 2011.
22. Author interview with Fund staff member from the SPR department, Washington, DC, September 2011.
23. Author interview with Fund staff member from the African department, Washington, DC, June 2011.
24. Author interview with Fund staff member from the African department, Washington, DC, June 2011.
25. Author interview with Fund staff member from the African department, Washington, DC, June 2011.

Bibliography

Almeida, P. 2007. Defensive mobilization: Popular movements against economic adjustment policies in Latin America. *Latin American Perspectives* 34(3): 123–139.

Bhagwati, J. 1978. *Anatomy and consequences of exchange control regimes*. Cambridge, MA: Ballinger Press.

Bhagwati, J. 1998. The capital myth: The difference between trade in widgets and dollars. *Foreign Affairs* 77(3): 7–12.

Bhagwati, J. 2004. *In defense of globalization*. Oxford: Oxford University Press.

Bhagwati, J., and T.N. Srinivasan. 1980. Revenue seeking: A generalization of the theory of tariffs. *Journal of Political Economy* 88(6): 1069–1087.

Bird, G., and D. Rowlands. 2009. Financier or facilitator? The changing role of the IMF in low-income countries. In *Finance, development, and the IMF*, ed. J. Boughton and D. Lombardi, 113–133. Oxford: Oxford University Press.

Boughton, J. 2004. The IMF and the force of history, the ten events and ten ideas that have shaped the institution. IMF working paper WP/04/75, Washington, DC: IMF.

Boughton, J. 2012. *Tearing down walls: The International Monetary Fund 1990–1999*. Washington, DC: International Monetary Fund.
Camdessus, M. 1995. *The International Monetary Fund and the challenges of globalization*. Address at the Free University, Amsterdam, 18 November 1995. https://www.imf.org/external/np/sec/mds/1995/mds9520.htm. Date Accessed 9 Mar 2013.
Chwieroth, J. 2010. *Capital ideas: The IMF and the rise of financial liberalization*. Princeton: Princeton University Press.
Friedman, M. 1968. The role of monetary policy. *American Economic Review* 58: 1–17.
Friedman, M., and A. Shwartz. 1963. *A monetary history of the United States*. Princeton: Princeton University Press.
IMF. 1986. *IMF executive board minutes 26 March 1986*. Washington, DC: IMF. Archive reference EBM/86/56.
IMF. 1987. *IMF executive board minutes 15 September 1987*. Washington, DC: IMF. Archive reference EBM/87/138.
IMF. 1997b. *Good governance: The IMF's role*. Washington, DC: IMF.
IMF. 1997c. Experience under the IMF's enhanced structural adjustment facility. *Finance and Development* 34(3): 32–36.
IMF. 1998. *External evaluation of the ESAF: Report by a group of independent experts*. Washington, DC: IMF.
IMF. 1999d. *Economic adjustment and reform in low income countries: ESAF review background paper*. Washington, DC: IMF.
IMF. 1999e. *IMF executive board minutes: 30 August 1999*. Washington, DC: IMF. Archive reference EBM 99/95.
IMF. 1999f. *IMF executive board minutes: 13 September 1999*. Washington, DC: IMF. Archive reference EBM 99/102.
IMF. 2000. *Annual report 2000*. Washington, DC: IMF.
Krueger, A. 1978. *Foreign trade regimes and economic development: Liberalization attempts and consequences*. Cambridge, MA: Ballinger Press.
Krueger, A. 1997. Trade policy and economic development: How we learn. *American Economic Review* 87(1): 1–22.
Lavelle, K. 2011. *Legislating international organization: The US congress, the IMF, and the World Bank*. Oxford: Oxford University Press.
Little, I., T. Scitovsky, and M. Scott. 1970. *Industry and trade in some developing countries*. London: Oxford University Press.
McKinnon, R. 1973. *Money and capital in economic development*. Washington, DC: Brookings Institution.
Mgonja, G. 2009. Tanzania-reform and progress, 1995–2007. In *Successes of the International Monetary Fund: Untold stories of cooperation at work*, eds. Brau, E., and I. McDonald. London: Palgrave Macmillan.

Muth, J. 1961. Rational expectations and the theory of price movements. *Econometrica* 29(3): 315–323.

Olson, M. 1965. *The logic of collective action*. Cambridge: Cambridge University Press.

Oxfam. 2001. *Making PRSPs work: The role of the poverty assessments*. Washington, DC: Oxfam.

Phelps, E. 1967. Phillips curves, expectations of inflation and optimal unemployment over time. *Economica* 34: 254–281.

Polak, J. 1991. The changing nature of IMF conditionality. *Essays in International Finance 184* (Princeton University): 18–19.

Rapley, J. 2007. *Understanding development: Theory and practice in the third world*. London: Lynne Rienner.

Robinson, W. 2004. *A theory of global capitalism: Production, class, and state in a transnational world*. Baltimore: Johns Hopkins Press.

Rückert, A. 2007. Producing neoliberal hegemony? A neo-Gramscian analysis of the poverty reduction strategy paper (PRSP) in Nicaragua. *Studies in Political Economy* 79: 91–118.

Rupert, M. 2000. *Ideologies of globalization: Contending visions of a new world order*. London: Routledge.

Scholte, J.A., 2000. The IMF and social movements. In *Contesting global governance: Multilateral economic institutions and global social movements,* eds. O' Brien, R., A.M. Goetz, J.A. Scholte, and M. Williams, 159–205. Cambridge: Cambridge University Press, 2000.

Shaw, E. 1973. *Financing deepening in economic development*. London: Oxford University Press.

Smith, J. 2008. *Social movements for social democracy*. Baltimore: John Hopkins Press.

Walton, J., and D. Seddon. 1994. *Free markets and food riots: The politics of global adjustment*. Cambridge: Blackwell.

Willis, M. 1981. Rational expectations as a counterrevolution. In *The crisis of economic theory*, ed. Daniel Bell and Irving Kristol, 81–96. New York: Basic Books.

World Economic Forum. 1999. *World economic forum annual report 1998/1999*. Geneva, World Economic Forum.

World Economic Forum. 2000. *New beginnings: Making a difference: Report of the annual meeting 2000 of the world economic forum*. Geneva, World Economic Forum.

CHAPTER 6

Deepening the IMF's Development Model: The ECF, RCF, and SCF Reform

In 2009, the IMF sold off US$15 billion of gold reserves to finance the newly created Poverty Reduction Growth Trust (PRGT). In 2010, the PRGF was replaced by three concessionary lending arrangements supported by the PRGT. The ECF provides three-year loans and is designed for medium-term to long-term concessionary lending to LIDCs with chronic balance of payments problems. As with the PRGF, ECF lending is contingent on the development of a poverty reduction strategy. The SCF provides short-term and precautionary financing lending for LIDCs that suffer from sporadic internal or external shocks, rather than protracted balance of payment difficulties. No poverty reduction strategy is required for SCF loans. The RCF provides assistance to LIDCs with urgent financing needs arising from emergencies or economic shocks. Use of the RCF also is free of the conditionality requirements found in ECF and SCF lending. Along with greater flexibility, ECF, SCF, and RCF lending is highly concessional. Until 2016, all LIDC loans carry a 0 % interest rate.[1]

According to the IMF, the replacement of the PRGF with the ECF, RCF, and SCF framework was a direct response to the 2008–2009 global financial crisis and the 2007–2008 food and fuel crisis. Within this context, Chap. 6 first examines the 2010 reform in light of the broader argument put forth by neo-Gramscian scholars that increased episodes of economic crises have spurred a movement among global elites to call on global governance institutions to 'soften' the negative effects of globalizing capitalism.

© The Editor(s) (if applicable) and The Author(s) 2016

M. Hibben, *Poor States, Power and the Politics of IMF Reform*, International Political Economy Series,
DOI 10.1057/978-1-137-57750-4_6

In addition to addressing poverty issues in programs such as the PRGF, there was a conscious push within the IMF and in other multilateral institutions to give greater voice to the global poor. The fallout from the 2008 crisis multiplied and sharpened these tendencies and helped facilitate the emergence of global governance programs that included the more 'flexible' ECF, RCF, and SCF.

The next section argues that broad-based shifts in economic thinking among development economists following the 2008 crisis also played an indirect, but important role in the ECF, RCF, and SCF reform. Here, a shift within the economics profession and IMF staff saw a move away from three decades of conservative macroeconomic positions toward an ideological landscape more open to traditional Keynesian inspired fiscal and monetary policy. This center-left challenge to the status quo provided additional leverage to LIDC staff and IMF management supportive of deepening the Fund's commitment to pro-poor concessionary lending. The 2008 crisis and its aftermath also led to the recalibration of powerful state influence on LIDC policy. From the late 1990s up till the 2008 crisis, the USA was increasingly resistant to deepening the IMF's role in concessionary lending, a position also quietly shared by Germany. The UK and France, in contrast, remained deeply committed to concessionary lending. Prior to the crisis, a lack of consensus between these two blocs of states limited PGRF reform efforts led by the staff. Fallout from the 2008 crisis weakened the position of the USA and Germany.

Another key actor who ultimately pushed the ECF, RCF, and SCF reform to completion was Managing Director Strauss-Kahn. The 2008 crisis increased Strauss-Kahn's leverage as he led efforts to deepen the Fund's commitment to LIDCs and pushed for a more flexible concessionary lending framework. Simultaneously, NGOs had shifted strategies since the late 1990s and played a more indirect role in LIDC reform. Rather than focus on direct lobbying of the IMF or organizing large-scale public pressure campaigns, a coalition of NGOs used the leverage of the global financial crisis and a legally binding US congressional mandate to pressure actors within the Fund to commit to social spending in concessionary lending programs.

6.1 The 2008 Crisis, Inclusive Neoliberalism, and LIDC Reform

As introduced in Chap. 3, neo-Gramscians including Arne Rückert and William Robinson argue that post-Washington Consensus reforms are a form of 'inclusive neoliberalism' ultimately designed to undermine the

growing resistance and challenges facing the broader political project of globalizing capitalism. Specific to the IMF, reforms including debt relief through the HIPC and HIPC II initiatives, 'pro-poor' lending through the introduction of the PRGF, 'participatory' development strategies with the introduction of PRSPs, and the Keynesian inspired policies that emerged in the post-2008 period are seen as the by-product of broader attempts by global elites to 'attenuate some of the sharpest social contradictions of global capitalism' in the interests of assuring 'long term stability and reproduction' of the current historical structure (Robinson 2004: 163).

David Craig and Doug Porter (2005) contextualize the move away from a strict model of market liberalization through comparison of early twenty-first-century dynamics to those seen in episodes of nineteenth- and twentieth-century capitalist development. They maintain that prior to the current era of globalization, trends followed roughly what Karl Polanyi describes as the 'double movement' in market-society relations (Polanyi 1944). The first movement of market liberalization was supported by an ideological framework that separated economics from politics and replaced traditional and local social regulation with the 'laws' of market-based relations. The second movement—social regulation and government policies that moderate the effects of market forces—followed soon thereafter as was seen in the emergence of Keynesian welfare states, ISI state models, or more nefariously expressed in the state capitalist models of fascist regimes.

For Craig and Porter, the post-Washington Consensus period differs from previous eras in that policies of inclusive neoliberalism appear to pre-emptively undermine the possibility of the second movement in LIDCs:

> Comparison with Polanyi's account leads to the conclusion that Poverty Reduction and Social Inclusion are in fact an attempt to secure and embed liberal reforms in the social order…but one that is being actively managed from the top down, drawing potential adversaries into managed dialogues and partnerships…[and acts as]…a kind of pre-emptive, strategic inoculation against a more broadly and socially contested double movement, the kind of double movement arguably most feared by the agents of a wider liberal project. (Craig and Porter: 257)

Rückert argues that a key factor in this 'strategic inoculation' against more statist or redistributive centered reactions to the Washington Consensus period is the role that the Bretton Woods institutions currently play in absorbing any radical challenges to a market driven development

paradigm. Two primary mechanisms are identified. First, the integration of LIDC elites into decision-making processes concerning poverty reduction strategies and policy choices tied to lending arrangements undermines potential challenges to the status quo. Second, an increase in dialogue with civil society over the last decade has also absorbed counterhegemonic ideas and concepts to makes it seem as though the concerns of critics are being heard and taken seriously (Rückert 2007: 97).

As documented in Chap. 5, individuals within the IMF demonstrated an awareness of growing resentment and pushback by the late 1990s. This trend continued through the first decade of the twenty-first century. In 2003, for example, the IMF prepared an internal 'Guide for Staff Relations with Civil Society Organizations'. The rationale for engaging with civil society was that 'Active civil society involvement with global institutions like the IMF is not only an inescapable fact of life in 21st century politics, but there are also significant reasons for the Fund to welcome and nurture these relationships.' These reasons included dispelling 'public misconceptions regarding the Fund and its activities', increasing 'support for Fund backed measures', and deepening 'ownership of the policies that the Fund advances' (IMF 2003a: 4).

The notion that the Fund was sensitive to public perception and the need to build legitimacy is further evidenced by a series of executive board evaluations of its external communications strategy. These studies, undertaken in 1998, 2000, and 2003, included in-depth analysis of the number and slant of media reports on the IMF and also undertook surveys to gauge public opinion. The 2003 report concluded that in regard to its public perception, 'the challenge the Fund faces is long-standing and deep rooted' and 'that its public image continues to be slightly less favourable than the World Bank, and both trail the United Nations in polls of elites and the general public' (IMF 2003b: 3). The report also noted that despite current low favorability ratings, the IMF was now seen as a less secretive institution and 'should seize on this opportunity to build on this opportunity through a continuous, well-coordinated communications effort aimed at improving understanding of and support for the Fund and its activities'. Field studies undertaken by Jan Aart Scholte to evaluate the engagement of the Fund with civil society actors in African LIDCs also support the notion that the IMF actively worked to increase consensus building between 2005 and 2010. Since 2006, the IMF and World Bank have sponsored up to 40 civil society organizations from LIDCs to participate in each round of the annual and spring meetings. In 2007, the Fund also

created a 'civil society liaison' position within its communications department to specifically focus on its relations with LIDCs (Scholte 2012: 199).

While broader concerns regarding the building of large-scale 'buy-in' to the destabilizing effects of globalizing capitalism played a role in shaping global governance policy in the decade following the Asian crisis of the late 1990s, the global financial crisis more directly and dramatically did so. At the 2009 World Economic Forum, for example, the discourse of global crisis management and concerns about social backlash rose to the surface. WEF Executive Chairman Klaus Schwab, for example, summarized his concerns as follows:

> There is a growing consensus, among the young and the old as well as across developing and industrializing countries that we are experiencing a transformational economic crisis-one that is on course to fundamentally change globalization well beyond the domain of international finance. We face a destructive social backlash that could foment political instability, revive economic nationalism, and reverse development gains should our leaders fail first to develop effective solutions to the current economic crisis and then fail to manage the growing roster of global risks such as climate change, non-proliferation, and food security. (World Economic Forum 2009: 3)

The theme of social unrest and protectionism was reiterated by then French Minister of Finance Christine Lagarde: 'Social unrest and protectionism are the two major risks of the world economic crisis' (World Economic Forum 2009: 7). In the short term, the consensus from the 2009 Davos meeting was that a three-pronged strategy was necessary to climb out of the crisis. This included a coordinated global fiscal stimulus, a restoration of capital flows to the developing world, and increased global financial regulation. In regard to the former, 'although some participants held out hope for "quantitative easing," most agreed coordinated fiscal stimulus in the G-20 countries is the best hope for supporting global demand' (World Economic Forum 2009: 12). Along with calls for Keynesian inspired policy response, the 2009 report also documented a more fundamental discussion that emerged in regard to twenty-first-century capitalism. Schwab, for instance, argued that the crisis required that Davos participants 'overhaul our institutions, our systems, and above all, our way of thinking' (World Economic Forum 2009: 13).

A focus on short-term greed among Davos participants was also noted, and highlighted the concern that the public might reject globalizing capitalism:

> In Davos, the potential for social backlash was clearly high on the agenda as participants were discussing how to keep rising joblessness and public outrage over perceived corporate greed from sparking a rollback of globalization. Capitalism need not be jettisoned, they concluded, but it needs to be brought back in line with its role as tool for humanity's advancement. (World Economic Forum 2009: 7)

Themes of reforming capitalism continued into the 2010 Davos meeting. A synopsis of a 2010 session on 'Rethinking Market Capitalism', for example, concluded that the 'Anglo-Saxon' model of capitalism favored by multilateral institutions had fallen out of favor and inferred that a more regulated form was preferable:

> Capitalism has created lucrative returns for a few over the past few decades, but has widened the gap between the rich and the poor. Some 34 million jobs have been lost in the last two years alone. Such trends have caused a crisis of confidence in capitalism and corporate executives in particular… Financial institutions that relied on the Anglo-Saxon model of profit maximization fell out of favor in many regions, while Asian banks remained largely healthy and even expanded their market share…Some new global regulatory structure is needed and the G-20 may be best positioned to formulate it. (World Economic Forum 2010)

Specific to the IMF, documents and staff responses demonstrate that the 2008 global financial crisis deepened the IMF's participatory, consensual approach to LIDC policy implementation. Since the mid-1980s, the Fund has employed highly specific structural performance criteria to assess if countries borrowing from the institution were on track to comply with loan conditions focused on structural reform. If a member state failed to meet these structural performance criteria, a formal waiver approved by the executive board was needed to gain access to future release of loan resources. In May 2009, structural performance criteria were eliminated from all IMF conditional lending programs and were replaced by a more general review process coordinated by the executive board. The Fund describes the rationale behind this shift as follows:

> In the past, the IMF has been criticized by some governments and civil society organizations for demanding too many reforms in exchange for financial assistance…structural performance criteria came to be seen as a key source of stigma attached to borrowing from the IMF. The IMF is hoping that its new lending framework will overcome the lingering mistrust that has

> marred its relations with some countries, particularly after the Asian crisis in the 1990s, and that countries in need of help to overcome what has been billed as the worst economic crisis since the Great Depression will no longer hesitate to approach the IMF. (Anderson 2009: 1)

According to a senior staff member in the SPR department, the elimination of structural performance criteria was a calculated cost-benefit analysis focused on increasing buy-ins from authorities and civil society to the necessity of structural reform: 'There was a feeling that conditionality had gotten a bit out of control and it was time to trim it back. The benefit is that you will have a program that had greater ownership by the authorities and we were willing to go down that road.'[2] IMF LIDC policy in the post-2008 period, including the new ECF, RCF, and SCF framework, is characterized by an increasingly active push for consensus building and a less disciplinary framework of market driven development.

6.2 The 2008 Crisis, Keynesian Macroeconomic Shifts, and LIDC Reform

The Asian crisis led to a breakdown of elite consensus with regard to the merits of the Washington Consensus model. However, this did not translate into shifts in IMF thinking concerning macroeconomic policy response in LIDCs. Rather, the IMF LIDC position reflected the ideas pushed by monetarism, new classical economics, and New Keynesian economics. Inflation control remained the primary goal of monetary policy. 'Activist' countercyclical fiscal policy also was to be avoided. Trust in the stability and long-term efficiency of markets also factored into an aversion against government intervention into labor and financial markets. In this section, I first outline the influence of New Keynesianism on the IMF's monetary and fiscal policy position and trace how the 2008 crisis delegitimized conservative macroeconomic policy positions deeply embedded in Fund common sense. I then trace how this 'crisis of macroeconomics' shifted how the IMF and its LIDC staff approached monetary and fiscal policy decisions and how this change influenced the ECF, RCF, and SCF reform.

New Keynesianism first emerged in the early 1980s as a reaction to monetarist and new classical critiques of Keynesian inspired theory. As outlined by Bruce Greenwald and Joseph Stiglitz (1993: 23), New Keynesians share with traditional Keynesianism three general propositions: '1. During some periods—often extended—an excess supply of labor exists at prevailing level of real wages. 2. The aggregate level of economic activity fluctu-

ates markedly…These fluctuations are greater in magnitude and different in pattern from any that might be accounted for by short-run changes in technology, tastes, or demography. 3. Money matters, at least most of the time, although monetary policy may be ineffective in some periods (like the Great Depression)'. Robert Gordon (1990: 1116) describes the 'task' of New Keynesianism as follows:

> The essential feature of Keynesian macroeconomics is the absence of continuous market clearing. Thus a Keynesian model is by definition a nonmarket-clearing model, one in which prices fail to adjust rapidly enough to clear markets within some relatively short period of time…The task of New Keynesian economics is to explain why changes in the aggregate price level are sticky.

While in disagreement with new classical and monetarist assumptions concerning market self-correction, New Keynesians concede that the new classical focus on microeconomic principles to explain macroeconomic outcomes is an important advancement. New Keynesians have thus adopted the microfoundational focus of new classical economics, but differ in their assumptions about the nature of markets. While new classical models see market distortion as the exception rather than the rule, New Keynesians highlight that imperfect information and other distorting externalities are a 'given' in market transactions (Romer 1993). The cumulative effect of individuals rationally responding to imperfect market conditions produces aggregate market failure, particularly in the short run (Greenwald and Stiglitz 1993: 23–4).

New Keynesians argue that there are several dynamics that produce price and wage rigidities during periods of economic downturn that undermine market clearing. Specific to prices, the concepts of 'menu costs' and 'price staggering' explain why reduced demand during economic downturns does not necessarily result in lower prices. Menu costs refer to the cost of changing prices. Prices do not adjust quickly or continuously as it costs firms resources to implement a new price (Mankiw 1985). Price staggering also occurs as firms are conscious of their prices relative to other firms and do not want to be the first to decrease their prices (Taylor 1980; Calvo 1983). New Keynesians adopt the concept of 'efficiency wages' to explain why wages may remain high despite high unemployment. Firms pay above market average wages as high wages make workers more productive, produce less turnover, and attract more qualified and dedicated employees. Cumulatively, the choice of individual firms to pay above equilibrium wages to their high-value workers reinforces involuntary unemployment (Shapiro and Stiglitz 1984).

In regard to macroeconomic policy response, New Keynesians are generally conservative in their application of expansionary monetary and fiscal policy.[3] Influential New Keynesians, including N. Gregory Mankiw, for example, are strong supporters of inflation targeting and present their policy positions primarily as a response to demand shocks (government spending, for example).[4] In the short run, central bank manipulation of interest rates is to be used to counter inflationary pressure caused by demand shocks. Given that prices and wages are sticky, however, there will be periods of involuntary unemployment following a necessary reduction in money supply. The best solution, therefore, is to proactively avoid imbalances caused by introducing excessive aggregate demand into the economy (Zimmerman 2003: 62; Gabor 2010: 807). This framing of monetary policy became the norm in the 1990s when central banks and the Fund accepted the 'Taylor Rule'. Introduced by New Keynesian economist John Taylor in 1992, it stipulated that central banks should 'lean against the wind' by systematically responding to increased inflation 'with a more-than-proportional increase' in nominal interest rates (Loungani 2008: 8).

This combination of ideas drawn from monetarist, new classical, and New Keynesian theory (also referred to as 'the New Consensus' or 'the Great Moderation' by its proponents) was reflected in Fund macroeconomic positions from the 1982 Mexican debt crisis up till the 2008 global financial crisis. Inflation management was the primary goal of monetary policy, along with an avoidance of countercyclical fiscal policy. Trust in the stability and long-term efficiency of markets also translated into an aversion to government intervention into labor and financial markets. The relatively low volatility, low unemployment, and low inflation found in most industrialized states from the 1980s to 2008 were attributed to these policy directives. As articulated by IMF Chief Economist Olivier Blanchard (2008: 1) in August 2008, an intellectual consensus had formed around appropriate monetary, fiscal, and regulatory response, and the 'state of macro was good'.

Constructivist studies of the IMF argue that a 'crisis of legitimacy' can facilitate ideational change, norm shifts, and subsequent policy reform. The 2008 global financial crisis proved to be such an event as elements from three decades of macroeconomic policy consensus were called into question. Managing Director Strauss-Kahn, in a 2011 speech delivered at an IMF sponsored forum on 'Macro and Growth Policies in the Wake of the Crisis', captured this sentiment in his opening remarks:

> The last few years have not only been a crisis for the global economy, but also a crisis for economics. The Great Moderation led too many of us to underestimate macroeconomic risks…the recent experience has raised profound questions about the pre-crisis consensus on macroeconomic policies. (Strauss-Kahn 2011)

Blanchard, in an apparent mea culpa, shared a similar perspective, saying that the relative stability in advanced economies prior to the 2008 crisis had 'lulled economists and policymakers into a false sense of security' and that the 'Great Recession required 'a reassessment of what we know about how to conduct macroeconomic policy' (Clift 2010). Reflecting on the crisis in 2015, Blanchard was even more adamant that it fundamentally reshaped economic thinking:

> The crisis was a traumatic event during which we all had to question many cherished beliefs…It would have been intellectually irresponsible, and politically unwise, to pretend that the crisis did not change our views about the way the economy works. Credibility would have been lost. So, rethinking, or pushing the envelope was not a choice, but a necessity. (IMF 2015a)

As outlined below in an analysis of shifts in monetary and fiscal policy, the post-2008 period is characterized in part by the growing influence of more orthodox aspects of Keynesian theory.

Monetary Policy

In regard to monetary policy, Blanchard outlined the pre-2008 consensus thinking in these terms:

> Stable and low inflation was presented as the primary, if not exclusive, mandate of central banks. This was the result of coincidence between the reputational needs of central bankers to focus on inflation…and the intellectual support for inflation targeting by the New Keynesian model…
> There was an increasing consensus that inflation should not only be stable, but very low. (IMF 2010e: 3–4)

Blanchard also noted that despite some debate among economists that exceedingly low target inflation rates could replicate deflationary spirals seen during the Great Depression, these concerns were largely dismissed prior to the 2008 crisis: 'The liquidity traps in the Great Depression, combining

significant deflation, and low nominal rates, were seen as belonging to history, a reflection of policy errors that could now be avoided' (IMF 2010e: 3). Blanchard argued that there is now recognition that inflation targets were too low in the pre-2008 era and led to 'costly' consequences:

> When the crisis started in earnest in 2008, and aggregated demand collapsed, most central banks quickly decreased their policy rate to close to zero. Had they been able to, they would have decreased the rate further: estimates…suggest another 3 to 5 percent for the United States. But the zero nominal interest rate bound prevented them from doing so…it is clear that the zero nominal interest rate bound has proven costly. Higher average inflation, and thus higher nominal interest rates to start with, would have made it possible to cut interest rates more, thereby probably reducing the drop in output and the deterioration of fiscal position. (IMF 2010e: 8)

Prior to the 2008 crisis, LIDC policy was more sensitive to the effects of exceedingly low inflation targets on growth rates and monetary flexibility. In a 2005 staff paper, a discussion on appropriate inflation rates recognized that 'the desirability of single digit inflation had been questioned' and that no consensus around the appropriate inflation rates for LIDCs had been clearly established. In their ultimate conclusion that LIDC policy rates should target between 5 % and 10 % inflation, Fund staff argued that LIDCs needed room for short-term expansionary intervention due to the high risks of exogenous shocks to their economies. However, they also warned against inflation levels above 10 %:

> On balance, the above considerations support the use of single-digit inflation targets.… However, pushing inflation too low, say below 5 per cent, may entail a loss of output and seigniorage revenue, suggesting a need for caution in setting very low inflation targets in low-income countries. As these countries tend to be subject to larger output volatility and more pronounced price shocks, program design should take these economic attributes properly into account. In particular, inflation targets should be set so as to help avoid risks of an unintended contractionary policy stance. (IMF 2005: 19)

If discussions prior to the crisis called for higher inflation rates, the 2008 crisis resulted in LIDC staff more forcefully pushing for flexible monetary response. As seen in Fig. 6.1, the target inflation rate levels

	(Number of LIDCs)			
	3% below	3.1%-5%	5.1-10%	10.1-20%
1995–1999 (ESAF)	15	13	14	5
2003–2007 ('late'PRGF)	12	10	9	1
2010–2011 (ECF/RCF/SCF)	7	7	15	5

Fig. 6.1 Target LIDC inflation rates (1995–2011) (*Source*: Goldsborough and Berger (2007: 5–8) and Martin and Watts (2012: 25–6))

negotiated by LIDCs and the Fund have increased under the new ECF, RCF, and SCF framework. Of 34 LIDC lending arrangements negotiated in 2010–2011, 20 had inflation targets above 5 % as compared to 10 of 32 under PRGF lending from 2003–2007. Five LIDCs also had inflation targets between 10 % and 20 % under the new lending arrangements.

To deal with the aftermath of the 2008 financial crisis, the staff maintain that most LIDCs were conservative in their monetary response and argue that in future downturns a 'more active monetary easing' is advisable:

> In the 2009 downturn, LICs did not fully exploit the scope of monetary easing…while LICs did lower nominal policy rates, they did so by less than the decline in inflation would have allowed, resulting in sharply higher real policy rates at the peak of the crisis. In the event of another global downturn and softening of commodity prices, more active monetary easing may be appropriate in LICs with moderate inflation. (IMF 2011a: 26)

Staff from the African department also argued for a Keynesian inspired monetary policy that reflected inflation levels and adjusted accordingly: 'As inflation falls, monetary policy should be eased…On the other hand, countries still experiencing excessive inflation many need to tighten monetary policy' (IMF 2009a: 7).

Fiscal Policy

New Consensus thinking, drawing from monetarist, new classical, and New Keynesian theory, dismissed countercyclical fiscal policy as an

appropriate macroeconomic policy tool. As noted by Blanchard, 'In the 1960s and 1970s, fiscal and monetary policy had roughly equal billing… In the past two decades, however, fiscal policy took a backseat to monetary policy' (IMF 2010e: 5). For New Keynesians, an aversion to countercyclical fiscal response was expressed in terms of rational expectations of individual economic agents. Individuals aware of plans to increase government spending financed through taxes or bonds understand that such activity negatively impacts future income. As such, they rationally choose to decrease consumption to save for future higher taxation. The subsequent drop in consumption therefore offsets attempts by government authorities to stimulate aggregate demand (Gabor 2010: 816). Monetarists and new classicalists also portrayed countercyclical fiscal response as irresponsible, as deficit spending undermined macroeconomic stability through increased inflationary pressure.

Since the 2008 crisis, countercyclical fiscal policy has been reestablished in the IMF as an appropriate component of macroeconomic response. Strauss-Kahn fired the first shot at the New Consensus in early November 2008. The crisis, he argued, was 'what economists call a Keynesian recession' and required coordinated international fiscal expansion to stimulate demand and 'avoid a global depression' (Strauss-Kahn 2008). At an emergency G-20 summit meeting in November 2008, Strauss-Kahn welcomed the fact that G-20 leaders supported 'fiscal stimulus, which I believe is now essential to restore global growth' (IMF 2008b). IMF staff papers during the first year of the crisis reiterated similar themes. A joint staff paper from the research and finance departments in December 2008 urgently argued for a 'timely, large, lasting, diversified, contingent, collective, and sustainable' fiscal policy stimulus to increase aggregate global demand (Spilimbergo et al. 2008: 2).

In perhaps the most dramatic shift in policy recommendations since the early 1980s, the paper warned against procyclical balanced budget requirements and called for strong public sector involvement to help stimulate demand:

> First…governments should make sure that existing programs are not cut for lack of resources. In particular, central governments or sub-national governments that are facing balanced budget rules may be forced to suspend various spending programs. Measures should be taken to counteract the procyclicality built in these rules…Second, spending programs, from repair and maintenance, to investment projects delayed, interrupted or rejected

for lack of funding or macroeconomic considerations, can be (re)started quickly. A few high profile programs, with good long-run justification and strong externalities, (for example, for environmental purposes) can also help, directly and through expectations. Given the higher degree of risk facing firms at the current juncture, the state could also take a larger share in private-public partnerships for valuable projects that would otherwise be suspended for lack of private capital. (Spilimbergo et al. 2008: 5)

An acceptance of Keynesian modes of countercyclical intervention has also been seen in the Fund's support of 'automatic fiscal stabilizers' in the post-2008 era. As outlined by Blanchard et al., the impact of future recessions could be ameliorated if automatic targeted tax rebates and income transfers to 'low-income or liquidity-constrained households' were implemented once employment levels fell below a threshold level (IMF 2010e: 15–6).

As with monetary policy, LIDC staff diverged somewhat from the broader institutional and professional consensus on fiscal policy prior to the 2008 crisis. Starting with the PRGF, IMF fiscal policy advice centered on issues of debt sustainability, strategic financing, and appropriate public expenditure to support the MDGs.[5] Staff argued that fiscal policy ultimately should work to lower budget deficits and public debt levels to manageable levels, as doing so would increase the level of private investment and subsequent growth. In the case of LIDCs, however, a history of unsustainable debt levels has produced dynamics that undercut the ability of these states to pursue prudent fiscal policy choices. Staff argued for a two-tiered strategy. LIDCs should work toward a tighter fiscal stance while multilateral institutions and bilateral donors should concurrently maintain or increase concessionary lending and debt forgiveness to produce policy space for pursuing MDG initiatives.

In line with the broader institutional trend following the 2008 crisis, countercyclical fiscal policy reentered the policy tool-kit for LIDCs. A series of staff papers focused on the crisis and LIDC response, for example, highlighted the importance of countercyclical fiscal intervention during the crisis and rebuilding 'policy buffers' going forward in preparation for future economic recession:

Growth was supported by a countercyclical policy response-a first for LICs in contrast to past crises when the fiscal stance was tightened. Most LICs let their fiscal automatic stabilizers operate, and the median income in real primary spending was higher than in the previous five years…Empirical analysis

> suggests that the response allows vital spending to be preserved, in particular on social sectors and infrastructure, and helped mitigate the negative impact of the global crisis on economic growth and the poor (IMF 2010b: 4)

IMF staff working with LIDCs also maintained that targeted income transfer plans 'to the poorest often result in a larger stimulus to aggregate demand, given their higher propensity to consume' and argued for targeted public works programs and income transfer as a component of fiscal stimulus (IMF 2009b: 31).

6.3 Overcoming 'Minimalist' Resistance

Along with reframing the boundaries of 'appropriate' macroeconomic policy response among economists and IMF staff, fallout from the global financial crisis recalibrated the internal dynamics between what Liam Clegg (2013) describes as the 'developmentalist' and 'minimalist' blocs of powerful states on the IMF's executive board. In regard to the latter, the US grew increasingly skeptical of the PRGF and of the deepening of the IMF's focus on concessional lending through the early and mid-2000s. This position was formalized in 2005 with the IMF's adoption of the Multilateral Debt Relief Initiative (MDRI)[6] and PSI. While the US agreed that 'serious' debt relief was appropriate for LIDCs, it also argued that the IMF should move away from the concessionary lending model and focus instead on non-loan arrangements. Supporters of the minimalist position also advocated for the return of a clear delineation between the IMF's and World Bank's roles in LIDCs. The US maintained that the World Bank should use its institutional comparative advantage to focus on development issues, while the IMF should refocus its efforts on balance of payment issues. Germany, although supportive publically of the PRGF, often argued behind the scenes against greater institutional shifts away from a strict focus on monetary issues and the maintenance of strict conditionality: 'In the end, Germany always goes along with the reforms but along the way they challenge us to not weaken conditionality and not to finance excessively.'[7]

Support for the PRGF throughout the 2000s came primarily from the developmentalist bloc led by the UK and France. During interviews, staff explained that the general narrative put forth by the two states included a clear articulation that past concessionary lending practices during the ESAF period were problematic. However, the PRGF served as an important first 'corrective' step and that deepening a commitment to the pro-poor model

was necessary.[8] The British and the French also pushed for a continuous engagement with LIDCs, rather than a model focused on crisis management:

> The British and the French have more of a tolerance—even perhaps a desire—to see the Fund engaged on a continuous basis in LICs because they think that having us there with financing creates positive momentum for reforms and prevents things from going too badly. The US would like our engagement to be episodic.[9]

According to an executive director representing African LIDCs, LIDCs were broadly supportive of the British and French position of deepening the IMF's involvement with concessionary lending. IMF LIDC staff reiterated similar ideas, and highlighted how increased engagement with LIDCs following the PRGF reform helped 'build macroeconomic management capacity and this is very much appreciated by finance ministers and central banks in LICs'.[10]

From 2005 to 2007, the division between the two blocs in regard to the IMF's continued commitment to the PRGF and concessional lending more broadly produced a period of stasis in IMF LIDC policy. As highlighted by IMF LIDC staff and LIDC executive directors, the appointment of Dominque Strauss-Kahn as managing director in September 2007, and the food and fuel crisis, began to shift the 'balance of power' between the minimalist and developmentalist factions. Specifically, Strauss-Kahn quickly ordered broad-based reviews of IMF programs and focused in on the institution's role in LIDCs. As highlighted by IMF LIDC staff, this signal from the managing director proved crucial to recommitting the Fund to the concessionary lending model and opened the door for reform of the PRGF:

> Strauss-Kahn was a trigger…he created a huge amount energy and a mandate for every part of the Fund to rethink what they were doing. We in the strategy, policy, and review department were tasked with looking at all our operations and where we needed to refresh them. We revamped conditionality…structural performance criteria were abolished across all facilities. We were also tasked with looking at what we could do to make the low income facilities more tailored and effective for poor countries.[11]
>
> Often times it only takes a spark. You look at Strauss-Kahn. He didn't have, given the world was falling apart, a lot of time devoted to LICs…He would go once or twice to Africa…But he pushed enough and oriented enough so that the rest of us who believed in this work could keep going.[12]

This same sentiment is shared by current and former executive board members: 'Ultimately it is the Managing Director's expression of interest in LIDCs issues that moves it onto the Board's agenda. Strauss-Kahn initiated and continued efforts to reshape IMF facilities to be more responsive to African needs.'[13]

In response to Strauss-Kahn's initiative, a team of staff in the SPR department began work on drafting a new LIDC concessional framework. Here, three areas of the PRGF were identified as problematic. First, the lending instrument failed to recognize the diversity of institutional capacity present in LIDCs. Some type of instrument was needed for LIDCs that lacked the institutional capacity to implement a full IMF program. Second, the PRGF was unable to respond to LIDCs that needed flexible short-term financing or emergency financing. And third, no emergency precautionary facility was available to LIDCs. In broad terms, the plan developed by SPR LIDC staff thus looked to recognize and respond to the diversity of conditions present in LIDC countries.[14] There was also concern among some LIDC staff that a title that included the word 'poverty' held some stigma for potential borrowers and that gaps in the PRGF LIC policy required a new architecture. Finally, staff in the finance department also argued that the resources reserved for concessional lending should be more centralized under a new trust, rather than pulled from 'many pockets'.

Despite growing pressure from the managing director, LIDC staff, and the developmentalist bloc to reform the PRGF, the USA and Germany remained opposed to deepening any commitment to concessional lending. As articulated by an IMF LIDC staff member, prior to the full onset of the 2008 crisis, there was no consensus emerging in the executive board as shareholders remained 'strongly divided on LIC policy' and that the global financial crisis 'got us over the finish line' in efforts to reform the PRGF.[15] As the crisis developed in 2008 and 2009, increased pressure for LIDC reform was publically exerted on the minimalist bloc by Strauss-Kahn. Staff and executive directors interviewed point to the March 2009 *Successful Partnership for Africa's Growth Challenge* held in Dar-es Salaam, Tanzania, as a watershed moment for Strauss-Kahn and the Fund's relationship to LIDCs. Interviewees also saw this as a calculated move on Strauss-Kahn's part to push forward an agenda that deepened the IMF's commitment to LIDCs through reforms of the PRGF.

In the opening speech to the *Changes* conference, Strauss-Kahn clearly articulated his position regarding PRGF reform as a direct and necessary response to the global financial crisis:

> We meet at a critical juncture in history-for Africa, and for the world…The global financial crisis…provides a sobering backdrop to our conference… Even though the crisis has been slow in reaching Africa's shores, we all know it is coming-and its impact will be severe…We must make sure that the voices of the poor are heard. We must ensure that Africa is not left out… As Africa faces these daunting challenges, how can the IMF help? First and foremost, we must act quickly to provide our African members with the financial resources they need…Looking ahead, my goal is at least to double the IMF's concessional lending resources… I also want to increase the flexibility of IMF financing. We are exploring better ways to provide short-term financing to members facing immediate financing needs. Raising our access limits, which have become increasingly binding, is under discussion. We are also trying to streamline conditionality, and tailor it better to the circumstances of each individual country. Related to this, we are re-examining our policies on debt limits, to make them more flexible. (Strauss-Kahn 2009)

Strauss-Kahn also used the forum to argue that the IMF, under his leadership, would serve as an advocate and 'voice' for LIDCs in other global governance forums including the G-20:

> At the government level, I have been encouraged by the leadership role the G-20 has taken in crafting a global policy response to this global financial crisis. However, I am concerned that it is not well equipped to hear the voice of Africa or LICs more generally. Indeed, while the G-20 is certainly more representative than the G-8, it still excludes 165 of the IMF's member countries. I therefore see this conference as an excellent platform for African countries to convey key messages to the G-20 Leaders Summit held in London next month. In this conference, the IMF can be your voice. (Strauss-Kahn 2009)

A senior member of the African department articulated that Strauss-Kahn's position as an advocate for Africa could have sounded 'a bit patronizing, but it wasn't seen that way. The point of this was that now it was our turn to listen to the LICs'.[16]

In addition to the pressure exerted by Strauss-Kahn for deepening the IMF's commitment to LIDCs, Clegg (2014: 742–6) documents how the fallout from the global financial crisis and the 2008 US presidential election provided an opening for NGOs focused on IMF LIDC policy to impact concessionary lending programs. In 2008 and 2009, a coalition of 11 NGOs (self-described as the 'NGO Working Group on the IMF')

successfully lobbied the US Congress to pass a congressional mandate that required the US executive director to formally protect social spending levels in concessionary lending programs. Clegg also notes that one of the strategies used in passing the mandate was convincing US legislators that the protection of social spending in concessional lending fulfilled the request put forth by the G-20 that IMF programs support countercyclical policies. Signed into law by US President Obama in June 2009, the mandate legally required that the IMF's US executive director protect levels of educational and health spending in concessionary lending arrangements. With a legally mandated commitment to maintain social spending levels in LIDCs, the US position softened concerning the broader question of the IMF's role in concessionary lending and development issues. It also strengthened the leverage available to the UK, France, and supporters of deepening the IMF's role in LIDCs.

Within a month, the Fund's executive board reached a consensus on a new concessionary lending framework. The PRGF-ESF Trust was replaced with the PRGT and funded initially primarily through the sell-off of US$15 billion of IMF gold reserves. Three new facilities drew from the PRGT and formally began functioning in 2010. The ECF replaced the PRGF and focuses on medium-term lending. The ECF was supplemented by two additional facilities. The SCF addresses short-term and precautionary needs, while the RCF provides emergency support with limited conditionality requirements. The language that accompanied the formation of the new concessionary lending framework demonstrated that the 'developmentalist' bloc led by Strauss-Kahn had won the day: 'Poverty reduction is established in the new Trust as an explicit purpose of all three facilities. Specifically, programs under the ECF, SCF, and RCF are aimed at assisting low-income countries in achieving and maintaining a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth'. (IMF 2014d: 45)

6.4 Conclusion

Fallout from the global financial crisis set the foundation for deepening the IMF's commitment to pro-poor concessionary lending with the adoption of the ECF, RCF, and SCF framework. As highlighted by historical structural analysis, elite response to the global financial crisis included calls for

coordinated efforts to use the levers of global governance to avoid broad-based 'blowback' to the larger political project of globalizing capitalism. This included support for countercyclical global stimulus and increased financial regulation coordinated through the G-20 and the IMF. A broad-based move away from conservative economist positions was also seen in the IMF's staff and the broader economist community. The 2008 crisis delegitimized three decades of macroeconomic policy consensus that drew from monetarism, new classical economics, and New Keynesianism. This was supplanted by an ideological environment more open to Keynesian ideas supportive of countercyclical monetary and fiscal response.

The acceptance and integration of a more 'activist' macroeconomic position into LIDC policy was supported by the UK and French led 'developmentalist' bloc, which stood increasingly at odds with the US 'minimalist' position throughout the 1999–2008 period. As fallout from the crisis deepened in 2008 and 2009, Managing Director Strauss-Kahn directly and indirectly applied pressure on US and German executive board members skeptical of deepening the IMF's commitment to 'pro-poor' concessionary lending. The most public lobbying effort included Strauss-Kahn's speech at the Tanzania *Changes* conference, where he positioned the IMF as an advocate for LIDCs and pushed for deepening and improving concessionary lending facilities. NGOs also applied pressure 'distally' to the US executive director through the use of a legally binding US congressional mandate that formalized a commitment to social spending in concessional lending arrangements. As the differences in the preferences of powerful states decreased, a consensus position supportive of the new ECF, SCF, and RCF framework dedicated to poverty reduction and flexibility in policy response in LIDC concessionary lending emerged.

Notes

1. IMF Official Website, IMF Factsheet: IMF Support for Low Income Countries, http://www.imf.org/external/np/exr/facts/poor.htm, date accessed 19 June 2015.
2. Author interview with Fund staff member from the SPR department, Washington, DC, September 2011.
3. A prominent exception to the rule here is Joseph Stiglitz who advocates for a more traditional Keynesian position.
4. Inflation targeting involves central banks setting low rates of inflation and then abiding by them. New Zealand was the first country to adopt inflation targeting in 1989. As of 2010, 26 countries used inflation targeting. See Rodger (2010).

5. Author interview with Fund staff member from the African department, Washington, DC, June 2011.
6. In 2005, the G-8 proposed that the IMF, IDA, and the African Development Fund cancel 100 % of the debt claims of states that had reached HIPC completion points. Under MDRI, the Fund formed two trusts (MDRI-I and MDRI-II) to pay off the full stock of debt owed to the IMF for loans disbursed prior to 2005. States with per capita income of US$380 a year or less receive debt relief financed by the Fund's own resources through the MDRI-I. LIDCs with per capita income above US$380 receive funds from bilateral creditors administered by the Fund through the MDRI-II. As of 2010, US$3.4 billion in debt relief was granted to 32 LIDCs who had reached HIPC completion points.
7. Author interview with Fund staff member from the SPR department, Washington, DC, June 2011.
8. Author interview with Fund staff member from the African department, Washington, DC, June 2011.
9. Author interview with Fund staff member from the African department, Washington, DC, June 2011.
10. Author interview with Fund staff member from the SPR department, Washington, DC, June 2011.
11. Author interview with Fund staff member from the SPR department, Washington, DC, June 2011.
12. Author interview with Fund staff member from the African Department, Washington, DC, June 2011.
13. Author interview with Executive board director, Washington, DC, January 2012.
14. Author interview with Fund staff member from the SPR department, Washington, DC, June 2011.
15. Author interview with Fund staff member from the SPR department, Washington, DC, September 2011.
16. Author interview with Fund staff member from the SPR department, Washington, DC, September 2011.

Bibliography

Anderson, C. 2009. *New rules of engagement for IMF loans*, IMF survey online 13 April 2009. http://www.imf.org/external/pubs/ft/survey/so/2009/pol041309a.htm. Date Accessed 1 Dec 2013.

Blanchard, O. 2008. *The state of macro.* Working paper 14259, NBER working paper series, August 2008. http://www.nber.org/papers/w14259.pdf?new_window=1. Date Accessed 12 Apr 2012.

Calvo, G. 1983. Staggered prices in a utility-maximizing framework. *Journal of Monetary Economics* 12(3): 383–398.

Clegg, L. 2013. *Controlling the World Bank and the IMF: Shareholders, stakeholders, and the politics of concessional lending*. Basingstoke: Palgrave Macmillan.
Clegg, L. 2014. Social spending targets in IMF concessional lending: US domestic politics and the foundations of rapid operational change. *Review of International Political Economy* 21(3): 735–763.
Clift, J. 2010. *Interview with Olivier Blanchard: IMF explores contours of future macroeconomic policy*. IMF survey online, 12 February 2010. http://www.imf.org/external/pubs/ft/survey/so/2010/int021210a.htm. Date Accessed 1 June 2012.
Craig, D., and D. Porter. 2005. The third way and the third world: Poverty reduction and social inclusion strategies in the rise of 'inclusive' liberalism. *Review of International Political Economy* 12(2): 226–263.
Gabor, D. 2010. The International Monetary Fund and its new economics. *Development and Change* 41(5): 805–830.
Goldsborough, E., and B. Berger. 2007. Inflation targets in IMF-supported programs. *Center for Global Development*, March 2007.
Gordon, R. 1990. What is new Keynesian economics? *Journal of Economic Literature* 28: 1115–1171.
Greenwald, B., and J. Stiglitz. 1993. New and old Keynesians. *Journal of Economic Perspectives* 7(1): 23–44.
IMF. 2003a. *Guide for staff relations with civil society organizations*. http://www.imf.org/external/np/cso/eng/2003/101003.htm. Accessed 1 Dec 2013.
IMF. 2003b. *A review of the fund's external communications strategy*. http://www.imf.org/external/np/exr/docs/2003/021303.pdf. Accessed 1 Dec 2013.
IMF. 2005. *Monetary and fiscal policy design issues in low income countries*. http://www.imf.org/external/np/pp/eng/2005/080805m.pdf. Accessed 1 June 2012.
IMF. 2008b. *IMF managing director dominque Strauss-Kahn calls G-20 action plan significant step toward stronger international cooperation*. IMF press release no. 08/286 15 November 2008. http://www.imf.org/external/np/sec/pr/2008/pr08286.htm. Accessed 1 June 2012.
IMF. 2009a. *Impact of the global financial crisis on Sub-Saharan Africa*. http://www.isdbforum.org/Subjects/Causes-Impact_of_the_Financial_Crisis/Impact_Global_Financial_Crisis_Sub-Saharan_Africa.pdf. Accessed 1 June 2012.
IMF. 2009b. *The implications of the global financial crisis for low-income countries*. http://www.imf.org/external/pubs/ft/books/2009/globalfin/globalfin.pdf. Accessed 1 June 2012.
IMF. 2010b. *Emerging from the global crisis: Macroeconomic challenges facing low-income countries*. http://www.imf.org/external/np/pp/eng/2010/100510.pdf. Accessed 1 June 2012.
IMF. 2010e. *Rethinking macroeconomic policy*. Staff position note SM/10/03. http://www.imf.org/external/pubs/ft/spn/2010/spn1003.pdf. Accessed 10 Mar 2011.
IMF. 2011a. *Managing global growth risks and commodity price shocks-vulnerabilities and policy challenges for low income countries*. http://www.imf.org/external/np/pp/eng/2011/092111.pdf. Accessed 4 May 2012.

IMF. 2014d. *IMF financial operations 2014*. http://www.imf.org/external/pubs/ft/finop/2014/. Accessed 10 April 2015.

IMF. 2015a. *Blanchard: Looking forward, looking back*. IMF survey magazine, 31 August, 2015. http://www.imf.org/external/pubs/ft/survey/so/2015/res083115a.htm. Accessed 15 Sept 2015.

Loungani, P. 2008. Quest for rules. *Finance and Development* 45(1): 6–9.

Mankiw, N.G. 1985. Small menu costs and large business cycles: A macroeconomic model of monopoly. *Quarterly Journal of Economics* 100(2): 529–537.

Martin, M., and R. Watts. 2012. Enhancing the IMF's focus on growth and poverty reduction in low-income countries. *Development Finance International*, April 2012.

Polanyi, K. 1944. *The great transformation*. New York: Rinehart.

Robinson, W. 2004. *A theory of global capitalism: Production, class, and state in a transnational world*. Baltimore: Johns Hopkins Press.

Rodger, S. 2010. Inflation targeting turns 20. *Finance and Development* 47(1): 46–49.

Romer, D. 1993. The new Keynesian synthesis. *Journal of Economic Perspectives* 7(1): 5–22.

Rückert, A. 2007. Producing neoliberal hegemony? A neo-Gramscian analysis of the poverty reduction strategy paper (PRSP) in Nicaragua. *Studies in Political Economy* 79: 91–118.

Scholte, J.A. 2012. A more inclusive global governance? The IMF and civil society in Africa. *Global Governance* 18(2): 185–206.

Shapiro, C., and J. Stiglitz. 1984. Equilibrium unemployment as a worker discipline device. *The American Economic Review* 74(3): 433–444.

Spilimbergo, A., S. Symansky, O. Blanchard, and C. Cottarelli. 2008. *Fiscal policy for the crisis*. IMF staff position note SPN/080/01 29. http://www.imf.org/external/pubs/ft/spn/2008/spn0801.pdf. Accessed 1 June 2012.

Strauss-Kahn, D. 2008. *'Staving off a global depression'*, *The guardian*. 3 november 2008. http://www.guardian.co.uk/commentisfree/2008/nov/03/marketturmoil-banks. Accessed 8 Feb 2012.

Strauss-Kahn, D. 2009. *Opening remarks: Conference on successful partnership for Africa's growth challenge*. Dar-es-Salaam, 10 March 2009. http://www.imf.org/external/np/speeches/2009/031009.htm. Accessed 8 Feb 2012.

Strauss-Kahn, D. 2011. *Opening remarks: Macro and growth policies in the wake of the crisis*. Washington, DC, 7 March 2011. http://www.imf.org/external/np/speeches/2011/030711.htm. Accessed 10 Apr 2012.

Taylor, J. 1980. Aggregate dynamics and staggered contracts. *Journal of Political Economy* 88(1): 1–23.

World Economic Forum. 2009. *Shaping the post-crisis world: Report of the annual meeting 2009 of the world economic forum*. Geneva, World Economic Forum.

World Economic Forum. 2010. *World economic forum annual meeting 2010: Rethinking market capitalism*. 28 January 2010. http://www.weforum.org/pdf/AM_2010/transcripts/market-capitalism.pdf. Accessed 13 Aug 2013.

Zimmerman, G. 2003. Optimal monetary policy: A new Keynesian view. *The Quarterly Journal of Austrian Economics* 6(4): 61–72.

CHAPTER 7

Conclusion

The resurgent IMF has substantially increased its policy footprint in the world's poorest states in the post-2008 era. Fallout from the global financial crisis has also sparked debates within the institution that could fundamentally reshape its LIDC policy. It is particularly pertinent for those interested in shaping future reform efforts and development policy changes in the global South to understand why the IMF shifted position in the recent past. Through a comparative study of four cases of post-Washington Consensus LIDC reform, this book identifies variables and mechanisms that drove these instances of policy change and also evaluates if there are any recognizable patterns across these cases of reform. In addition, it assesses if and how LIDC policy reform is interconnected with and influenced by broader social forces and tension points in the historical structure of the post-Washington Consensus period. These three areas constitute the 'practical' component of this project and are briefly first summarized below.

Chapter 7 then evaluates the strengths and limitations of a research framework focused on IMF change open to both positivist and critical theory. The use of mainstream and critical theoretical frameworks produces analytical tensions that are at some level unresolvable. I focus specifically on what I see as intractable differences between theoretical frameworks of IO change that conceptually see the social world as made of externally related 'things' versus approaches that embrace Marxist inspired conceptions of dialectic, internal relations. Despite these tensions, I maintain that

© The Editor(s) (if applicable) and The Author(s) 2016

M. Hibben, *Poor States, Power and the Politics of IMF Reform*, International Political Economy Series,
DOI 10.1057/978-1-137-57750-4_7

the complexity of the world and the processes of change within it merit the use of both mainstream and critical theory when studying processes of IMF reform. Future studies of the IMF and other multilateral institutions should explore more fully how diverse paths of inquiry, even if grounded in different ontological and epistemological positions, can be effectively used to explain policy reform. I conclude the chapter and this book with a brief overview of current debates in IMF LIDC policy and how the knowledge gained from this project could facilitate future policy reform in the post-2015 period.

7.1 Drivers of Post-Washington Consensus LIDC Policy Reform

Comparing four cases of LIDC reform uncovers the following patterns (see Table 7.1). First, two tiers of actors impact LIDC outcomes: 'primary actors' include the managing director, powerful states, and staff; 'secondary actors' include LIDCs, NGOs, the US Congress, and the World Bank president. At a minimum, a coalition between two primary

Table 7.1 Coalitions of IMF LIDC reform (1996–2010)

Reform	*In opposition*	*In support*
HIPC	Powerful states (France, Germany, and Japan) Managing director Staff	Powerful states (USA and UK) NGOs
HIPC II		Powerful states Managing director Staff NGOs LIDCs
PRGF	Staff Majority of LIDCs	Powerful states Managing director Select senior staff in SPR Select LIDCs
ECF/RCF/SCF	Powerful states (USA, Germany, and Japan)	Powerful states (UK and France) Managing director Staff LIDCs

Source: Hibben (2015: 221)

actors (MD-staff, MD-powerful states, powerful states-staff) or a primary actor and secondary actor appears necessary to produce significant policy change. As such, while the actors may change, coalition formation is a necessary precondition for LIDC policy reform. Evidence also suggests that as the number of primary actors in a coalition supportive of reform increases, the greater the chances that a formal policy change will occur.

As predicted by PA models, a lack of consensus among powerful state principals provides openings for management and staff to initiate or resist policy reform. This was most salient when staff and the managing director shared preferences. In the HIPC case, heterogeneous state preferences around a conservative plan of debt forgiveness supported by staff and Camdessus allowed the proposal to go forward for adoption. Diverse opinions among powerful states in regard to a proposal to overhaul of the PRGF framework prior to the 2008 crisis also gave Strauss-Kahn and the staff room to initiate a new framework for LIDCs. If powerful states on the executive board exhibit preference heterogeneity in future scenarios, we should expect management and staff to enjoy the same degree of leverage to initiate or block reform efforts.

PA theory also hypothesizes that the pressure applied by NGOs on the IMF for policy reform will not be effective if directly applied to the IMF. Rather, if NGOs instead focus on winning over powerful states, the IMF will respond to these proximate principals. According to IMF staff and executive directors, NGO direct pressure and public ‘street heat’ was a key variable that facilitated the enactment of the HIPC and HIPC II reforms of the late 1990s. NGO pressure also was applied on powerful states through domestic lobbying efforts and meetings with the G-7. This project is unable to discern if pressure applied distally or proximately had any more or less causal effect on processes of reform in these cases. In the case of the ECF, RCF, and SCF, however, NGO pressure applied to the US Congress influenced LIDC policy reform. While staff and executive directors note that NGOs played little part in the post-2008 reform, evidence from Chap. 6 highlights that a coalition of NGOs helped strengthen the ‘developmentalist’ faction within the IMF by bringing into force a legally binding US congressional mandate. This suggests that US congressional mandates offer NGOs an important leverage point to influence the US executive director and future LIDC policy reform.

In Chap. 4, four major arguments that draw from constructivist theories of IMF change were identified. First, changes in economic ideas and norms about development impact LIDC policy reform. Second, the

mechanisms by which ideas and norms change within the IMF revolve around 'crises of legitimacy'. Actors within the Fund are hypothesized to change their framework of thinking on certain policy choices when these frameworks are deemed illegitimate by a critical mass of elites. Third, 'norm entrepreneurs' within the institution play a key role in LIDC policy change, particularly in the early stages of reform efforts. And fourth, a rejection of ideas or development norms that fundamentally challenge liberal market solutions to LIDC issues was unexpected.

Systemic crises indeed play a central role in changing ideas around what is deemed legitimate in IMF policy choices. Ideas drawn from monetarism, new classical economics, and New Keynesianism, for example, created a dynamic within the IMF where countercyclical monetary and fiscal policies were met with resistance from the early 1980s until the 2008 crisis. The 2008 crisis delegitimized the New Consensus among a critical mass of development economists and strategically situated individuals within the IMF. This helped build support for more traditional Keynesian inspired macroeconomic policies and reinforced the position of those within the IMF committed to 'deepening' and broadening its relationship with LIDCs. This suggests that IMF staff and management seek legitimacy regarding their policy choices and can reach a tipping point where they fundamentally question economic ideas. When this occurs, there is a greater chance that formal policy reform will follow.

The Washington Consensus was critiqued extensively, both internally and externally, throughout the 1990s and the Asian crisis. This also recalibrated how IMF staff thought about LIDC policy. Here, a rethinking of the Polak model and an emphasis on poverty reduction helped catalyze the replacement of the ESAF with the PRGF and the introduction of PRSPs. The Asian crisis and the 2008 crisis, however, did not challenge more intractable ideas deeply embedded in institutional 'common sense'. Despite the turmoil of the late 1990s and 2008, confidence in free trade and an aversion to large-scale and coordinated redistribution remains entrenched in IMF thinking. As of 2015, LIDCs are also advised to avoid protectionism, over or undervalued exchange rates, subsidies, redistributive tax arrangements, and large-scale entitlement programs (IMF and World Bank 2002: 33; Nash and Mitchell 2005: 35; Ahmed 2008: 10–1; Anderson and Masters 2009: 323–57; Hern and McDonald 2010: 23; Coady et al. 2010: 7; IMF 2010a:15–6; IMF 2011b: 17).

Evidence from these cases also points to the importance of the managing director and senior staff in the SPR department in regard to LIDC policy reform. In the PRGF case, Managing Director Camdessus and SPR senior staff convinced a skeptical IMF staff of the connection between poverty reduction and long-term growth. In the case of ECF, RCF, and SCF, the leadership of Managing Director Strauss-Kahn was also a key variable that ultimately produced this reform. Here, Strauss-Kahn reframed the narrative of the IMF's relationship with LIDCs. In the post-2008 world, the IMF now stands as an advocate for the world's poorest states and as an 'equal partner'. One component of this new relationship was the reinvention of the concessionary lending program. Given that the managing director plays a central in shaping LIDC policy, efforts to select a future managing director from the global South offers an opportunity for those interested in LIDC issues to lobby for IMF leadership more sensitive to issues found among its poorest member states.

Historical structural frameworks drawing from neo-Gramscian theory and focused on the post-Washington Consensus period invoke the concept of 'inclusive neoliberalism' to study contemporary IMF LIDC reform. Global elites, increasingly conscious of the aftermath of economic crises and resistance to globalization, have embraced strategies designed to build long-term support for the economic and political project of globalizing capitalism. IMF post-Washington Consensus reforms thus are an expression of these efforts. Inclusivity in this context has two dimensions: shifts in thinking embedded in new policy positions and the processes through which policy positions are implemented. In regard to the latter, Fund policy documents and interviews of IMF staff and management demonstrate that the institution consciously shifted the manner in which its policy initiatives were implemented to increase buy-in from LIDCs. Along with a focus on participation through PRSPs, this move away from top-down approaches has also included the removal of structural performance criteria and increased LIDC NGO participation in formal Fund events.

In regards to the nature of the policy shifts themselves, forums including the Davos meetings of the WEF demonstrate that global elites displayed deep concern of potential blowback from the Asian crisis and the 2008 crisis and saw these crises as potential threats to the contemporary world order. Recommendations that emerged from the WEF to manage globalizing capitalism through global governance reform in the post-Washington Consensus period mirror those found in IMF LIDC reform efforts.

For example, the general consensus that came out of Davos following the 2008 crisis was that there is a need for broad-based and coordinated countercyclical fiscal stimulus and a rethinking of New Consensus monetary policy. At the IMF, the idea that there is a need for a Keynesian inspired response was shared by Managing Director Strauss-Kahn, chief economist Oliver Blanchard, and staff.

IMF staff, however, were broadly dismissive of the idea that their policy choices following the crises of the late 1990s and 2008 were driven by elite concerns or shifts in economic thinking. Rather, the shift in the institution toward more pro-poor and Keynesian practices was portrayed as a 'practical' response to events on the ground in LIDCs. Staff explanations as to why the Fund shifted in a more Keynesian direction thus did not touch upon a broader crisis of legitimacy. Further analysis is thus needed to trace if and how global elites and their response to crisis points directly or indirectly influences IMF LIDC policy choices and reform.

7.2 Squaring a Circle? Problem-Solving and Critical Theoriesof IMF LIDC Reform

The use of three distinct theoretical frameworks uncovers different dynamics that impact IMF LIDC reform. For example, evidence suggests that LIDC policy change is influenced by the heterogeneous preferences of powerful states, shifts in how particular economic ideas gain or lose legitimacy among IMF staff, and broader tensions in the current historical structure of globalizing capitalism. If each theoretical framework presents a reasonable causal story on its own terms and offers important insights into why the IMF adopts or blocks LIDC reform, does it therefore make sense to study this phenomenon or other cases of multilateral institutional change through the use of a diverse ontological and epistemological arsenal?

Robert Cox's framing of problem-solving versus critical theory provides an avenue to assess if the approach used in this book is ultimately a workable or productive enterprise. As is often quoted, for Cox (1981), 'Theory is always *for* someone and *for* some purpose.' As is also the case when debating major ontological differences and purposes in political science, Cox's differentiation between problem-solving theory and critical theory highlights in broad terms some of the major tensions that a research program open to rationalist, constructivist, and historical structural frameworks must address. 'Problem-solving theory…takes the world as it finds it, with the prevailing social and power relationships and the institutions

into which they organized as the given framework for action.' Critical theory, in contrast, begins from a more overtly normative and radical position. It is critical because it 'does not take institutions and social power relations for granted'. Through a systematic analysis of historical processes, it serves as a roadmap for possible transformative change. In this way, critical theory can be a guide for strategic action to bring about an alternative order, whereas problem-solving theory is a guide for tactical actions which, intended or unintended, sustain the existing order.

Given this understanding, a major 'elephant in the room' that emerges with an approach sympathetic to the use of both problem-solving and Marxist inspired historical structural analysis is that the latter ultimately finds the ontological and epistemological position of problem-solving approaches to be a mythology of sorts, and one that potentially blocks transformative social change. For critical theorists, the framing of social reality as consisting of atomistic social objects, externally related and 'out there' acting on each other, is a clear expression of subject-object duality that has evolved with capitalist social relations. If we examine the IMF through this conceptual lens, do we at some level reinforce this reification of social reality? And if so, does not that undermine our ability to systematically examine often unobservable power relationships that reinforce particular outcomes that undermine transformative possibilities?

There are therefore several ways one can deal with what appears to be an unresolvable tension between critical and problem-solving approaches. First, we can reject attempts to bridge the gap and return to more paradigmatically separate positions. Second, we can ignore the normative 'elephant in the room' and focus only on the particular strengths and insights that both problem-solving and historical structural approaches bring to the table. I reject both of these. In regard to the former, this project demonstrates that problem-solving and critical approaches focused on the phenomenon of IMF LIDC policy change produce more knowledge when used in conjunction than if we looked at it only through a mainstream or critical lens. In this sense, I thus find common ground with the growing popularity of the 'analytical eclectic' approach which prioritizes knowledge construction over sometimes needless paradigmatic divisions.

In regard to the latter, it certainly would be easier at some level to neuter the normative concerns of historical structural theory and focus only on how it empirically supplements the findings of positivist frameworks. This, however, feels intellectually dishonest and may ultimately undermine the strength of studies that use of both mainstream and critical approaches.

I advocate for a third possibility as follows. First, a question or concern is raised to be studied. Second, a case is made as to why the use of mainstream and historical structural theory is well suited for the question under study. Third, when introduced, each framework more explicitly lays out its normative position and understanding of the world, identifies potential limitations born from this understanding, and then moves forward to fully embrace that position while examining the phenomenon under study. Historical structural theory, for its part, should be presented and understood as a radical critique. However, it also should be noted that it does not have a monopoly on the politics of transformation, nor does the use of social relational ontology in any way exhaust all the possible ways that political scientists can produce a future world better than this one. The use of problem-solving theory should also clearly frame the parameters of its strengths and weaknesses. As outlined by Cox, it should make explicit that it is best suited for teasing out patterns within a given historical structure and that it is less well suited in explaining how the phenomenon under study is tied to broader and deeper social forces or periods of historical structural change. It should also be recognized that despite notions of objectivity, the ontology and epistemology upon which positivist approaches are built also have normative qualities. Once respective strengths and weaknesses are out of the closet, each theoretical framework—on its own terms—should look at the question under consideration. It is through this process that we stay intellectually honest to our different understandings of politics, and then use those different understandings to produce a better world.

7.3 Sustainable Development Goals and the Next Stage of IMF LIDC Reform

The post-2008 period has witnessed a series of policy debates within the IMF that could fundamentally reshape the institution's approach to LIDCs. First, the crisis facilitated a reassessment of three decades of macroeconomic thinking that prioritized price stability over all other macroeconomic outcomes. As of 2015, however, there are mixed signals that the institution has fully embraced more 'activist' fiscal and monetary policy positions. A focus on fiscal consolidation, for example, has reemerged as a key theme since 2013 in LIDC policy debates. Second is the Fund's engagement with issues of inequality and its relationship to growth and macroeconomic stability. The theme of income disparity, and how best the IMF could respond to this reality, now stands at the center of institutional

policy debates. While some influential senior staff members have advocated for seriously addressing redistribution issues, no consensus or specific policy change that addresses inequality in LIDCs has emerged. Third, a growing number of voices within the IMF, including Managing Director Lagarde, advocate that the institution adopt an 'inclusive growth' model. Along with a focus on inequality and redistribution in LIDCs, the inclusive growth model argues that Fund policies address unemployment in LIDCs and proactively integrate segments of the population historically excluded from the benefits of economic growth.

Advocates for the inclusive growth model and the policies it champions have recently had their position strengthened by the IMF's proactive involvement in the new SDGs adopted by the United Nations General Assembly in September 2015. The 17 SDGs replace the expiring MDGs and include calls for gender equity, reduction in inequality, sustainable growth, and environmental protection. An IMF policy paper (IMF 2015c) spells out how the institution plans to support the SDGs through work in three areas: sustainable growth, inclusive growth, and environmental sustainability. Policies tied to sustainable growth include support for economic diversification and infrastructure improvements. Inclusive growth involves addressing income, gender, and financial inequality. Environmental sustainability focuses on the reduction of energy subsidies and 'building resilience to climate-related events'.

On July 1, 2015 the IMF's executive board pushed forward with three changes to support its 'post-2015 Sustainable Development Goals' agenda. First, access to concessional lending facilities was expanded by 50 %. Second, the interest rate for all RCF loans designed for LIDCs suffering from natural disasters and post-conflict instability was dropped to zero. And third, the IMF committed to 'targeting concessional financing further toward the poorest and most vulnerable countries' (IMF 2015d). The IMF's high profile support of the SDGs thus arguably has set the stage for IMF insiders, policymakers, and activists committed to improving macroeconomic and development outcomes in LIDCs to exert leverage for effective reform. Drawing lessons from this book, this will involve strategic coalition building among sympathetic IMF insiders and influencing powerful states, particularly the USA, through the vehicle of the US Congress. If successful, the next round of IMF LIDC reform built around the SDGs could serve to radically improve the lives of world's poorest people.

Bibliography

Ahmed, M. 2008. The next frontier: Low-income countries gain ground in a globalized world but they face major challenges. *Finance and Development* 45(3): 9–14.

Anderson, K., and W. Masters. 2009. Sub-Saharan and North Africa. In *Distortions to agricultural incentives: A global perspective, 1955–2007*, ed. K. Anderson, 323–357. Washington, DC: The World Bank and Palgrave MacMillan.

Coady, D., R. Gillingham, R. Ossowksi, J. Piotrowski, S. Tareq, and J. Tyson. 2010. *Petroleum product subsidies: Costly, inequitable, and rising*. IMF staff position note SPN/10/05, 25 February 2010. http://www.imf.org/external/pubs/ft/spn/2010/spn1005.pdf. Date Accessed 1 Oct 2012.

Cox, R. 1981. Social forces, states, and world orders: Beyond international relations theory. *Millennium: Journal of International Studies* 10(3): 126–155.

Hern, C., and B. McDonald. 2010. Avoiding protectionism. *Finance and Development* 47(1): 20–23.

Hibben, M. 2015. Coalitions of change: Explaining low income country reform in the post Washington consensus. *Journal of International Relations and Development* 18(2): 202–226.

IMF and World Bank. 2002. Market access for developing country exports-selected issues. http://www.imf.org/external/np/pdr/ma/2002/eng/092602.pdf. Accessed 7 Oct 2013.

IMF. 2010a. *Reaching the MDGs. Macroeconomic prospects and challenges in low-income countries*. Washington, DC: IMF.

IMF. 2011b. *Regional economic outlook: Sub-Saharan Africa, recovery and new risks* http://www.imf.org/external/pubs/ft/reo/2011/afr/eng/sreo0411.pdf. Accessed 1 Mar 2012.

IMF. 2015c. *World economic outlook analysis: Commodity exporters facing the difficult aftermath of the boom*. IMF survey magazine, 28 September, 2015. http://www.imf.org/external/pubs/ft/survey/so/2015/RES092815A.htm. Accessed 4 Oct 2015.

IMF. 2015d. *Financing for development: IMF's role in the post-2015 agenda*. http://www.imf.org/external/pubs/ft/survey/so/2015/POL070815A.htm. Accessed 10 April 2015.

Nash, J., and D. Mitchell. 2005. How freer trade can help feed the poor: An agenda for easing hunger worldwide by reducing trade protectionism. *Finance and Development* 42(1): 27–37.

Bibliography

Barnett, M., and R. Duvall. 2005. Power in global governance. In *Power in global governance,* eds. Barnett, M., and R. Duvall, 1–22. Cambridge: Cambridge University Press.

Barro, R., and J.-L. Lee. 2005. IMF programs: Who is chosen and what are the effects. *Journal of Monetary Economics* 52(7): 1245–1269.

Bates, R. 1981. *Markets and states in tropical Africa*. Berkeley: University of California Press.

Belassa, Bela, G. Beuno, P.P. Kuczynski, and M.H. Simonsen. 1986. *Toward renewed economic growth in Latin America*. Washington, DC: Institute for International Economics.

Berg, A., and Y. Miao. 2010. *The real exchange rate and growth revisited: The Washington consensus strikes back*. IMF working paper WP/10/58, Washington, DC: IMF.

Bird, G., and D. Rowlands. 2009. Financier or facilitator? The changing role of the IMF in low-income countries. In *Finance, development, and the IMF*, ed. J. Boughton and D. Lombardi, 113-133. Oxford: Oxford University Press.

Bokkerink, S., and T.V. Hees. 1998. Eurodad's campaign on multilateral debt: The 1996 HIPC debt initiative and beyond. *Development and Practice* 8(3): 323–334.

Broz, J.L., and M. Hawes. 2006. Congressional politics of financing the International Monetary Fund. *International Organization* 2: 367–399.

Callaghy, T. 2002. *Innovation in the sovereign debt regime: From the Paris club to enhanced HIPC.* Washington, DC: World Bank Operations Evaluation Department.

© The Editor(s) (if applicable) and The Author(s) 2016

M. Hibben, *Poor States, Power and the Politics of IMF Reform*, International Political Economy Series,
DOI 10.1057/978-1-137-57750-4

Campbell, J. 1998. Institutional analysis and the role of ideas in political economy. *Theory and Society* 27(3): 377–409.

Caporaso, J., and D. Levine. 1992. *Theories of political economy*. Cambridge: Cambridge University Press.

Caraway, T., S. Rickart, and M. Anner. 2012. International negotiations and domestic politics: The case of IMF labor market conditionality. *International Organization* 66(1): 27–61.

Coorey, S. 1999. The setting for adjustment and reform. In *Economic adjustment and reform in low income countries: ESAF review background paper*, ed. H. Bredenkamp and S. Schader, 9–22. Washington, DC: International Monetary Fund.

Craig, D., and D. Porter. 2005. The third way and the third world: Poverty reduction and social inclusion strategies in the rise of 'inclusive' liberalism. *Review of International Political Economy* 12(2): 226–263.

Dollar, D. 1992. Outward-oriented developing economies really do grow more rapidly: Evidence from 95 LDCs, 1976–85. *Economic Development and Cultural Change* 40(3): 523–544.

Dreher, A., and N. Jensen. 2007. Independent actor or agent? An empirical analysis of the impact of US interests on IMF conditions. *Journal of Law and Economics* 50(1): 105–124.

Edwards, S. 1992. Trade orientation, distortions, and growth in developing countries. *Journal of Development Economics* 39(1): 31–57.

Elbadawi, I., L. Kaltani, and R. Soto. 2012. Aid, real exchange rate misalignment and economic performance in sub-Saharan Africa. *World Development* 40(4): 681–700.

Evans, H. 1999. Debt relief for the poorest countries: Why did it take so long? *Development Policy Review* 17: 276–279.

Fischer, S. 1999. Maintaining price stability. *Finance and Development* 33(4): 34–37.

Frankel, J., and D. Romer. 1999. Does trade cause growth? *American Economic Review* 89(3): 379–399.

Goldsborough, E., and B. Berger. 2007. Inflation targets in IMF-supported programs. *Center for Global Development*, March 2007.

IMF. 1997a. *The ESAF at ten years: Economic adjustment and reform in low-income countries*. Washington, DC: IMF.

IMF. 2008a. *The role of the fund in low-income countries*, http://www.imf.org/external/np/pp/eng/2008/061308.pdf. Accessed 1 June 2012.

IMF. 2013b. *IMF's response to the global economic crisis*. http://www.imf.org/external/np/exr/facts/changing.htm. Accessed 7 October 2014.

IMF. 2013c. *The G-20 mutual assessment process (MAP)*. http://www.imf.org/external/np/exr/facts/g20map.htm. Accessed 9 October 2014.

IMF. 2014d. *IMF financial operations 2014*.http://www.imf.org/external/pubs/ft/finop/2014/. Accessed 10 April 2015.

IMF. 2015b. *From ambition to execution: Policies in support of sustainable development goals*. http://www.imf.org/external/pubs/ft/sdn/2015/sdn1518.pdf. Accessed 28 September 2015.

IMF. 2015d. *Financing for development: IMF's role in the post-2015 agenda.* http://www.imf.org/external/pubs/ft/survey/so/2015/POL070815A.htm. Accessed 10 April 2015.

IMF and World Bank. 2002. *Market access for developing country exports-selected issues.* http://www.imf.org/external/np/pdr/ma/2002/eng/092602.pdf. Accessed 7 October 2013.

Keynes, J. 1936. *The general theory of employment, interest and money.* New York: Harcourt, Brace and Company.

Krueger, A. 1974. The political economy of the rent-seeking society. *American Economic Review* 64(3): 291–323.

Krueger, A. 1997. Trade policy and economic development: How we learn. American Economic Review 87 (1):1-22.

March, J., and J. Olsen. 1989. *Rediscovering institutions: The organizational basis of politics.* New York: The Free Press.

Murphy, C. 2000. Global governance poorly done and poorly understood. *International Affairs* 76(4): 789–803.

Nash, J., and D. Mitchell. 2005. How freer trade can help feed the poor: An agenda for easing hunger worldwide by reducing trade protectionism. *Finance and Development* 42(1): 27–37.

Oatley, T., and J. Yackee. 2004. American interests and IMF lending. *International Politics* 41: 414–429.

Park, S., and A.Vetterlein. 2010b. Do policy norms reconstitute global development?. In *Owning development: Creating policy norms in the IMF and World Bank*, eds. Park, S., and A. Vetterlein, 137–149. Cambridge: Cambridge University Press, 2010.

Shatz, H., and D. Tarr. 2000. *Exchange rate overvaluation and trade protection: Lessons from experience.* World Bank working paper WPS 2289. Washington, DC: World Bank, 2000.

Stiglizt, J. 1998. *More instruments and broader goals: Moving toward the post Washington consensus.* The WIDER Annual Lecture, Helsinki 7, January 1998.

Taylor, J. 1980. Aggregate dynamics and staggered contracts. *Journal of Political Economy* 88(1): 1–23.

Tullock, G. 1967. The welfare costs of tariffs, monopolies, and theft. *Western Economics Journal* 5(3): 224–232.

United States House of Representatives, Subcommittee on General Oversight and Investigations. 1998. *Review of the Operations of the International Monetary Fund*, 21 April 1998.

Vetterlein, A. 2007. Economic growth, poverty reduction and the role of social policies. The evolution of the World Bank's social development approach. *Global Governance* 13(4): 513–533.

Williamson, J. 1990. *Latin American adjustment: How much has happened?* Washington, DC: Institute for International Economics.

Index

A
analytic eclecticism, 84
Article IV Consultations, 33.
    See also surveillance
Asian crisis
    and breakdown of Washington
        Consensus, 128
    *influence on IMF consensual
        approach, 129–30*

B
Baker Plan, 98
Brady Plan, 99
Bretton Woods era
    breakdown of, 55–6, 93–7
    modified gold standard, 44
    IMF policy during, 43–50
    origins of, 43–5
    relation to Cold War politics, 46

C
Camdessus, Michel
    focus on poverty, 132
    role in HIPC reform, 92, 100
    role in HIPC II reform, 92,
        105–6
    role in PRGF reform, 132–5
    support of globalization, 125–6
critical theory
    as opposed to problem solving
        theory, 80, 172–3
    strengths and limitations of, 174

D
developmentalist bloc
    make up of, 157
    role in post 2008 LIDC reforms,
        157–9

E
embedded liberalism, 44, 94
enhanced Heavily Indebted Poor
        Country Initiative (HIPC II)
    background, 6, 91
    dynamics leading to adoption of,
        103–9

© The Editor(s) (if applicable) and The Author(s) 2016

M. Hibben, *Poor States, Power and the Politics of
IMF Reform*, International Political Economy Series,
DOI 10.1057/978-1-137-57750-4

Executive Board
overview, 32
powerful state voting power, 68–9
Executive Directors
list of, 33ECF/RCF/SCF reform
background, 143
dynamics leading to adoption of, 157–61

G

global financial crisis of 2008
impact on rethinking monetary policy, 152–4
impact on rethinking fiscal policy, 154–7
role in ECF/RCF/SCF reform, 160–1
good governance, 125

H

hegemonic vs non-hegemonic eras, 82–3, 87
hegemony
breakdown of Bretton Woods, 94–5
Fordism and, 93
formation of Bretton Woods, 92–4
Gramscian understanding of, 81–2
impermanence of, 87
role in IMF policy formation, 17, 94–5
versus supremacy, 20
Heavily Indebted Poor Country Initiative (HIPC)
background, 5–6, 91, 99–101
dynamics leading to adoption of, 102–7
historical bloc
defined, 16, 81
globalist, 88

I

International Monetary Fund (IMF)
coalition formation and LIDC reform, 18–9
historical overview, 43–52
influence of economic schools on, 16, 75–6
lending facilities, 34–5
mandate, 30
operational culture, 36–43
organizational structure, 31–3
origins of structural conditionality, 50
power exerted in LIDCs, 17, 53
quota system, 30–1
variables impacting policy choices, 62–6
IMF staff
culture of, 39–43
influence of economic profession on, 73–4
makeup of, 39–40
role in ECF/RCF/SCF reform, 159
role in HIPC reform, 100–2
role in HIPC II reform, 105, 108
role in PRGF reform, 134–5
Import Substitution Industrialization (ISI)
critiques of, 120–122
end of, 97
overview, 7–8
relation to Washington Consensus reforms, 8, 51, 121–2
view on inflation, 54
inclusive growth, 9
inclusive neoliberalism, 83, 144–5

K

Keynesianism
defined, 74
divergent staff views on, 74
IMF rejection of, 74

impact on IMF LIDC policy, 77
revival of in the post 2008 era, 74, 152–7
Krueger, Anne
influence on IMF, 120
theory of rent-seeking, 120

L

Lagarde, Christine
support of inclusive growth, 9
support of SDGs, 175
legitimacy of IMF policy ideas
Asian crisis impact on, 5
triggers undermining, 76
role of economics profession in, 77
Low Income Developing Countries (LIDCs)
defined, 1
factors driving IMF policy toward, 168–72
general characteristics of, 10–2
list of, 13
major reforms of IMF policy toward, 6–7, 20

M

Mexican debt crisis
debt reduction following, 99
debt restructuring following, 97–8
IMF response to, 51, 96–8
origins, 51, 96
role in Washington Consensus reforms, 51, 57, 98–9
Millennium Development Goals (MDGs), 3, 6
minimalist bloc
make up of, 157
role in post 2008 LIDC reforms, 157–9
monetarism
as reaction to Keynesianism, 118
defined, 118
influence on IMF, 118

N

neoclassical synthesis
defined, 77
divergence with Keynesianism, 77–8
influence on IMF, 77–8
new classical economics
defined, 117–8
divergence from monetarism, 118
influence on IMF, 119
new consensus, 19, 24, 151
New Keynesianism
defined, 149–150
influence on IMF, 151
non-governmental organizations (NGOs)
European Network on Debt and Development (EURODAD), 100–2
Jubilee 2000, 104–5
Oxfam, 101
NGO Working Group on IMF, 160–1
role in ECF/RCF/SCF reform, 160–1
role in HIPC reform, 100–2
role in HIPC II reform, 104
role in PRGF reform, 130
norm cycle, 72
norm entrepreneurs, 71

P

Paris Club, 98
Polak model
defined, 14–5
influence on IMF policy, 46–8
staff rethinking of, 19, 105

post-Washington Consensus, 7, 10, 12
consensus building in, 145–6
future of, 175
relation to inclusive neoliberalism, 144–5
shifts in IMF thinking in, 170–1
Poverty Reduction Growth Facility (PRGF)
background, 3, 6
dynamics leading to adoption of, 130–6
Poverty Reduction Strategy Paper (PRSP), 5–6

S
Structural Adjustment Facility (SAF)
as response to ISI model, 122–3
overview of, 51–2, 56–7
Strategy, Policy, and Review Department (SPR)
role in policy formation, 38–9
Strauss Kahn, Dominique
as advocate for LIDCs, 159–60
role in post-2008 LIDC reform, 9, 158–60
Stiglitz, Joseph, 74, 128
origins of post-Washington Consensus, 8
critique of IMF, 74
structural adjustment lending
as rejection of ISI, 57
elimination of structural performance criteria, 148–9
origins of, 56
protests against, 124, 126
surveillance
Article IV consultations and, 33
bilateral vs multilateral, 33
Sustainable Development Goals (SDGs), 3, 174–5

T
Tanzania Changes conference, 20, 26
as watershed moment for IMF and LIDCs, 159
Technical Assistance (TA), 34
theories of IMF change
constructivist, 72–81
evaluation of, 172
historical structural, 82–9
problem solving vs critical, 83–4
rational (principal-agent), 67–72
transnational capitalist class
role in breakdown of Bretton Woods hegemony, 95
role in restructuring of ISI state forms, 95

U
United States
influence on IMF, 45, 62–3, 69
role in ECF/RCF/SCF reform, 157, 159–60
role in HIPC reform, 101, 103
role in HIPC II reform, 107
role in PRGF reform, 132
United States Congress
congressional mandates and IMF policy, 69
influence on US Executive Director, 69
role in ECF/RCF/SCF reform, 160–1
role in HIPC II reform, 104–5

W
Washington Consensus
compare post Washington Consensus

breakdown of, 126–9
defined, 7, 9, 51, 57
elite dissent against following Asian crisis, 127–8
protest against, 126
origins of, 97
Wolfensohn, John,
role in HIPC reform, 8, 92, 102
role in HIPC II reform, 106
World Bank
relationship with IMF, 44–5
World Economic Forum (WEF)
reactions following Asian crisis.126–8
reactions following 2008 crisis, 147–8
WTO (World Trade Organization), 95, 126