Unending Reform Attempts at the IMF: Organised Hypocrisy or Bricolage?

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The International Monetary Fund (IMF) seems to have undergone an unexpected shift in its policy advice in the aftermath of the 2008 global financial crisis. The Fund seems to be moving away from the 'Washington Consensus' towards more Keynesian and anticyclical policies. It is also more sympathetic to the possibility of capital controls (Clift 2008). Although the change in the Fund's policy advice is certainly interesting, from another perspective, the lack of change at the IMF is indeed more puzzling. The institution has long been criticised for not granting enough representation to developing countries and emerging markets (Desai and Vreeland 2011). The U.S.'s disproportionate influence and the reflection of the post-war power structure in the voting system detract from its legitimacy as an institution. Furthermore, it is fast losing its influence among developing countries, which are looking for alternative sources of credit and/or accumulating reserves to avoid borrowing from the Fund (Lutz 2015). In other words, the IMF seems to be changing its institutional philosophy while remaining the same in some fundamental respects. It is puzzling why an international institution sees the need to reform and attempts it while at the same time preserving some core aspects that detract from its legitimacy. This article poses the question: what has determined continuity and change in the IMF in the wake of the 2008 financial crisis?

Scholars have previously discussed the reform of the IMF's conditionality and the inertia regarding institutional reform from two separate perspectives. In the case of the gradual shift in policy advice, they have looked at the internal organizational dynamics of change at the Fund (Clift 2018). Scholars that discuss the lack of reform, however, often argue that the seeming shift in the IMF's philosophy is indeed 'organised hypocrisy' (Kentikelenis et al. 2016): they stipulate that reforms are mere cosmetic changes with the aim of garnering greater legitimacy for the institution without genuine reform. This paper aims to bridge this scholarly divide in explaining both continuity and change at the Fund. It argues that the member states as the principals controlling the Fund shape the broad contours of potential change. Therefore, the denial of greater representation to emerging economies and the U.S.'s disproportionate influence at the Fund can be explained as reflecting power politics at the institution's birth. These conditions influence any later possibility of change and institutional reform. The IMF as the agent, however, has some organizational autonomy within the broad contours of its institutional setup. Its bureaucracy can challenge, modify, and adjust some aspects of the initial setup. The recent change in the Fund's policy advice can, therefore, be explained by the relative IMF's autonomy from the principal in day-to-day operations and more importantly its attempt at institutional survival.

The U.S.'s Influence in the IMF, Developing Countries, and the Possibility of Reform

The IMF was founded at the Bretton Woods Conference in 1944. From its inception, the U.S. has enjoyed a disproportionate influence in it (Woods 2006). The country has the largest voting share —16.52 percent as opposed to a 6.09 percent voting share for China, and 5.32 percent for Germany. Moreover, the U.S. maintains a de facto power to veto institutional reform at the Fund, as any amendment to the IMF charter is possible only when 'three-fifths of the members, having eighty-five percent of the total voting power' agree to those proposed changes. The U.S., holding more than sixteen percent of the votes, can, therefore, block any suggested change.

Randall Stone (2008) refers to the U.S.'s influence at the Fund as 'conditional delegation'. Conditional delegation envisages that the principal—the U.S.—intervenes in the operations of the agent—the Fund—only for reasons that are consequential for its immediate strategic interests. The U.S. has a long-term interest in preserving global financial stability and uses the Fund as a non-expensive tool for its foreign policy objectives. With respect to the question of why other states tolerate such disproportionate influence by the U.S., Randall Stone (2008) suggests that they share some long-term interests that overlap with the U.S.'s strategic interests.

Corroborating Randall Stone (2008)'s arguments, other scholars have demonstrated that the U.S. influence at the Fund indeed extends beyond formal voting rights and translates into practical aspects of institutional functioning. Axel Dreher and Nathan Jensen (2007) demonstrate that the U.S. secures more lenient conditions for its allies. They find evidence that close allies of the U.S. and of G-7 countries receive fewer conditions attached to their loans from the Fund. Similarly, Axel Dreher and colleagues (2015) and Mark Copelovitch (2010) separately document that the U.S. and G-5 allies receive fewer conditions and larger loans from the IMF.

Although Randall Stone (2008)'s informal governance and conditional delegation framework is compelling, it is a highly static model and is unable to incorporate the dynamic nature of global governance. For instance, in this model, long-term interests are implicitly assumed to be predefined and unchanging. The framework is ill-equipped to make predictions regarding the possibility of reform and concerns regarding the legitimacy of an institution in line with significant shifts in power. It offers a snapshot view of the current functioning of an institution without consideration of potential challenges to it. For instance, the institution's legitimacy is assumed to rely on a certain material exchange, where the less powerful states forgo their short-term interests for longer-term benefits such as the common good of global financial stability. However, one needs to ask: what would happen if the power balance changes in the international system? What would happen if the less powerful countries in the international system challenge an international institution that does not deliver the benefits it once promised?

Indeed, the Fund is heavily criticised for its role in developing countries. Critics argue that the Fund causes more harm than good in borrower countries. The adverse impact concentrates on three main issues: the prospect of economic growth under IMF programmes, the distribution of income, and the protection of civil and political rights. Critics argue that IMF programs stall economic growth (Bas and Stone 2014; Przeworski and Vreeland 2000; Vreeland 2003); distort the income distribution in borrowing countries (Garuda 2000; Lang 2016); the number of cases of violent repression, torture, and extra-judicial killings (of especially leftists groups) rises under IMF programmes (Abouharb and Cingranelli 2009; Pion-Berlin 1983; Franklin 1997); and the risk of *coup d'états* and civil wars increases (Casper 2015; Hartzell et al. 2010).

In line with those criticisms directed to the Fund, reform attempts in the previous two decades centred on reforming IMF voting rights and giving a bigger voice to the emerging market economies and developing countries, as well as updating the scope of conditionality. In terms of voting rights, the first major reform attempt took place in September 2006. The IMF argued that 'These reforms aim to better align the IMF's quota shares with members' relative positions in the world economy and to make it more responsive to changes to the global economy while, and equally important, enhancing the participation and voice of low-income countries in the IMF' (IMF 2006). The reform initially granted quota increases to four underrepresented countries: China, Korea, Mexico, and Turkey (IMF 2006). It also suggested doubling quotas for all members as a way of increasing the weight of low-income countries in the overall decision-making process. The reform agenda did not change U.S. voting rights. In 2010, there was yet another round of discussion for reforming the institution. This time, the focus was on increasing the voting shares of Brazil, Russia, India, and China, while developing countries would collectively lose three percent of their voting share (Weisbrot and Johnston 2016). The efforts were blocked by the U.S. Congress (Weisbrot and Johnston 2016). In between those reform attempts, ongoing debates on reforming the IMF periodically resurfaced, either independently or in response to the Fund's increased role and importance due to high-profile loans such as to Russia in 1997, to South Korea in 1999, and to Mexico in 2002.

In terms of reforming its conditionality, the Fund was somewhat more successful compared to its attempts to reform the institutional voting structure. In the wake of the Asian Financial Crisis, the Fund was heavily criticised for its frontloaded conditionality and its policy advice. In March 2000, the Executive Board of the IMF initiated a review of its financing tools, and on 10 April 2000, the Independent Evaluation Office (IEO) was established 'in order to assess the IMF's operations and policies' (IMF 2018b). On 31 August 2000, the IMF announced that it would publish loan sources on its website as part of its larger efforts of ensuring transparency and accountability in its operations (IMF 2018b). In 2001, in a further attempt to reform conditionality, the Executive Board decided to streamline conditions. However, major changes to conditionality did not occur until September 2002, when the IEO published its first report. In response to the report, the Managing Director established a task force to implement its suggestions. The IMF published new guidelines for conditionality in the same month. The guidelines underlined concepts such as 'national ownership of policy reforms; parsimony in the application of program-related conditions; tailoring of programs to the member's circumstances; and clarity in the specification of condition' (IMF 2002). Yet, another round of independent evaluation and changes to conditionality came in the wake of the global financial crisis, especially considering the role of the IMF in lending to Eurozone countries (IEO 2016). The IMF was once again criticised for lack of transparency, conditionality, and granting 'special treatment' to the Eurozone countries (IEO 2016). The Managing Director, Christine Lagarde, declared once again that the Fund had learned from its past mistakes and would implement the changes recommended by the IEO. The change was most visible in the transformation of rhetoric, especially regarding potential capital controls and implementing anti-cyclical and expansionary policies in the borrowing countries.

Neither Organised Hypocrisy, Nor Bricolage?

There is a fierce debate in the literature whether those changes are indeed cosmetic or whether the Fund is truly undergoing a slow but genuine shift in its policy advice and conditionality. Those who perceive the changes mainly as ceremonial argue that the Fund is upscaling its engagement in organised hypocrisy (Kentikelenis et al. 2016). On the one hand, it employs a rhetoric of change, while on the other, it continues to implement the same frontloaded, Washington consensus-led policy advice in its loans (Kentikelenis et al. 2016). Others, however, argue that the Fund's gradual shift can be seen as 'bricolage': it mixes the 'old' and the 'new' (Clift 2008). Expansionary fiscal policies in lieu of austerity are certainly new for the IMF and point to a significant shift in the fundamental philosophy of the Fund.

The argument of organised hypocrisy is appealing. However, it mainly relies on the number of conditions in Fund programmes as evidence for lack of change. Alexander Kentikelenis, Thomas Stubbs, and Lawrence King (2016) particularly find that the number of conditions has been increasing in the Fund's programmes, even in the aftermath of the 2008 global financial crisis. However, this diagnosis is not entirely true. The authors indeed show that the mean number of conditions was reduced to 31.8 in 2009 as opposed to 40.4 in 2007, and never reached 40 again in the aftermath of the 2008 financial crisis. In addition, the argument completely disregards the possibility of bureaucratic autonomy among Fund staff. The idea of bricolage also has some empirical and theoretical backing, as institutions change gradually: any sudden shift in a bureaucratic organisation is highly unlikely. Nevertheless, the argument of bricolage completely disregards the institutional obstacles facing reform (mainly U.S. influence in the Fund). In this paper, I argue that the possibility of reform is constrained by the Fund's initial setup. Even though the organisation attempts to conduct genuine reform, the U.S. and its institutional privileges define the limits of such attempts.

Indeed, scholars have previously documented that the Fund's organisational culture, particularly the norms and beliefs of its staff, play an especially important role in determining the scope of conditionality (Chwieroth 2013; Nelson 2017). Their findings show that the Fund's staff enjoys a certain degree of autonomy in determining conditionality despite the U.S.'s influence. In other words, American control over the Fund is not absolute. Dismissing any attempt to reform the IMF as 'organised hypocrisy' might be misplaced. The staff might truly reflect on past practices, learn from mistakes, and actively use their policy space for reform. Looking from this perspective, indeed, the attempts to reform the Fund might be genuine.

However, despite this actual and visible reinterpretation of and reflection on the Fund's mandate, its conditionality, and its legitimacy in the international arena, the argument of 'bricolage'—a gradual shift and reform—might be overly optimistic. The argument in its explanation of the current shift leaves the end of reform open-ended. It is not clear whether gradual reform can last until a total transformation of the institution is feasible. This type of transformation is highly unlikely, for two reasons. First of all, the U.S. veto right would block any such drastic transformation with regards to voting rights, especially giving greater voice to the emerging and developing economies. Secondly, especially because the Fund operates within a particular bureaucratic culture, past actions limit the future possibilities for reform.

In a way, the Fund can be argued to be caught between a rock and a hard place. On the one hand, it is under increasing attack and criticism due to the voting rights structure and its conditionality. Its place and importance in the international system are questioned to the extent that it risks becoming obsolete. The IMF's staff and management, perhaps motivated by organisational survival, attempt to reform the organisation in order to garner greater legitimacy. On the other hand, the Fund's institutional setup reflects this power structure and grants privileges to the U.S. Reform attempts might be genuine efforts to secure organisational survival. However, by definition, they are restricted by the initial institutional setup. The Fund, perhaps seriously, attempts to reduce the number of conditions, to grant greater representation to developing countries, and to redefine its macroeconomic philosophy. Nevertheless, it is bound by the same 'golden straitjacket' that it is often argued to offer to its borrowers.

Conclusion

In sum, we can explain the simultaneous existence of reform and continuity at the IMF by the interaction between the initial institutional setup, which restricts the possibility of reform, and an attempt for bureaucratic survival by the staff. Even though the unending reform of the Fund might be a genuine response to the challenges to its organisational survival in the international system, its initial institutional setup would not allow a dramatic institutional reset. We can speculate that a new monetary fund reflecting the changing realities of the international system's power balance is a greater possibility than an IMF where the U.S. dominance and the Washington Consensus are replaced with a more egalitarian structure and a non-neoliberal macroeconomic philosophy.

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