IMF WORKING PAPER

INTERNATIONAL MONETARY FUND

Should the IMF Become More Adaptive?

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Abstract

This paper addresses the question: Should the International Monetary Fund be making an even greater effort to adapt its objectives, priorities, rules, instruments, procedures, and resources to take account of changes in the global economic environment and in the needs of its members? It reviews the changes in the economic and geopolitical environment most relevant to the Fund and the ways the institution has adapted to date. It identifies the general factors that tend to inhibit adaptation in international institutions, and some of the specific factors that can facilitate adaptation in the case of the Fund. It concludes that the Fund should, indeed, be making even greater efforts to adapt, but that efforts in this regard should take account of the identified factors.

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[1] Comments from John Abbott, Shailendra Anjaria, Gérald Bélanger, José Blanch, Jack Boorman, James Boughton, Christoph Duenwald, Huw Evans, K.P. Geethakrishnan, Manuel Guitián, Stanley Fischer, Patrick de Fontenay, Alex Kafka, Nicole Laframboise, Joseph Lang, Timothy Lane, Thomas Leddy, Professor Robert Klitgaard, Professor Evert Lindquist, G. A. Mackenzie, Abbas Mirakhor, Garrett Murphy, Michael Mussa, Professor Louis Pauly, Jacques Polak, Sean O'Connor, Roderick Rainford, Jon Shields, Leo Van Houtven, Ewen Waterman, Alan Whittome, Lindsay Wolfe, and Onno Wijnholds are gratefully appreciated. Most of the suggestions made on earlier drafts by these commentators have been incorporated into the paper without further attribution. Some of the views which differed from those expressed in the paper have been summarized in footnotes. However, this is not to imply that the paper represents a consensus view of those consulted or of the International Monetary Fund. Neither do the views expressed necessarily represent those of the authorities in Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, or St. Vincent and the Grenadines who elected the author to the Executive Board.

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SUMMARY

The ability of an institution to adapt and learn is generally recognized as crucial to organizational performance. Arguments can be made for and against placing greater emphasis on institutional adaptiveness in the Fund.

The argument for greater emphasis begins with recognizing the magnitude of the changes in the global environment for the Fund's activity: in international capital markets, in the changed stature of central banks, in the persistence of public sector deficits, in the indebtedness of many of the poorest countries, in the convergence of economic doctrine, and in the changes in relative power of member countries. The observation could then be made that, in the face of these changes, the Fund has not adjusted its priorities, rules, procedures, structure, or deployment of resources to the same extent as many private sector or member government institutions. Supporting the argument for greater adaptiveness is the conclusion drawn by some scholars that the IMF has not proved to be as successful as the GATT in responding to the changing needs of member countries.

The main argument against placing more emphasis on adaptivity is that the Fund's monetary responsibilities demand that it retain a high degree of stability because of the problems of moral hazard associated with excessive institutional responsiveness. Furthermore, the Fund's record demonstrates that it has always been able to change its priorities and programs when an international crisis demanded it.

The paper assesses the balance of these arguments, by reviewing the organizational and international relations literature — including the major studies that have compared the operations of the IMF with those of other international institutions.

Factors that tend to inhibit adaptivity in international organizations include the pervasiveness of rules, the nature of plenary decision making with universal membership, the traditions of consensus and equal treatment, the divergence of country interests, and organizational inertia. Other factors tend to facilitate adaptivity, many of which are specific to the IMF. These include an established tradition of taking initiatives, an organizational culture stressing discipline and excellence, a close relationship between the staff and member governments, a creative tension between the Executive Board and management, a weighted and special majority voting system, and the liquidity of the Fund.

Despite the IMF's impressive record in meeting successive challenges over the last quarter century, the paper concludes that the forces inhibiting change are sufficiently strong that a conscious organizational effort is warranted to ensure that the Fund can continue to keep pace with changes in the global economy and the needs of its members. In contemplating such an effort, appropriate account should be taken of the institutional factors identified in the paper.

I. Introduction

A. Purpose

The purpose of this paper is to examine the question: *Should the International Monetary Fund be making an even greater effort to adapt its objectives, priorities, rules, instruments, procedures, and resources to take account of changes in the global economic environment and in the needs of its members?*

It could be argued that this question is too general to be constructively addressed. After all, the appropriate adaptation would depend on which changes in the environment are deemed most important and which countries' needs are to be given highest priority. Furthermore, some of the variables (e.g., procedures and resource allocation) may warrant change while others (e.g., objectives and instruments) may warrant continuity.[1] Indeed, one could also argue that, given its central role in international finance, the Fund should be a force for stability and should resist pressures to adapt to each perceived change in its environment or its members' circumstances. One might therefore ask if it is even useful to address an issue as broad as "Fund adaptivity."

However, there are several reasons for framing the question in broad terms:

- Institutional adaptivity and learning is receiving increased attention in the business and government literature as constituting an identifiable organizational characteristic, and one that is crucial for sustained effectiveness in a rapidly changing environment.[2]

- There are predictable generic features of international institutions which work in the direction of making them less adaptive than organizations subject to more direct market or political forces.

- A number of respected scholars reviewing the Fund have concluded that it may not be adapting to the changing needs of its membership as successfully as other international institutions (particularly the GATT).

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[1] "Adaptivity" is not the same as "flexibility." Adaptivity can be viewed as the ability to change rules and operating procedures. Flexibility, or degree of discretion, refers to the range of implementation options within any given rule. See Barrow (1986) for a review of the theory of rules versus discretion. The appropriate degree of discretion in programs and procedures (what Keynes called the "balance between law and license") will depend on a host of factors. The challenge addressed in this paper is the ability to *change* the way the Fund does its business in response to changes in the global environment — this could lead to more flexibility in some areas and more detailed rules (less flexibility) in others.

[2] For example, Haas (1990) believes the institutional ability to learn and adapt is the key factor that distinguished successful from unsuccessful international organizations. Haas' analysis of the IMF is summarized in Annex 2 of this paper.

This paper reviews the relevant literature in economics, international relations, and organizational behaviour to see if conclusions can be drawn about the general issue of adaptivity in the International Monetary Fund.

B. The Ongoing Review of the Role of the Fund

Following the debate about the international response to the Mexican peso crisis of 1994-95, there has been renewed reflection about "the role of the Fund." This is not the first such review. Indeed, the volume of literature[1] and number of conferences devoted to the operations of the Fund would suggest that the institution's role has been the subject of almost continuous critique for half a century.

The governance structure of the Fund has remained relatively constant over this period and is summarized in Annex 1. Annex 2 highlights the main conclusions in the literature pertinent to adaptation in international organizations, as well as the findings from the major comparative studies of the Fund.

Several topics relating to the role of the Fund have been addressed in recent papers by IMF officials and Board members[2] and in the conferences and books associated with the Fiftieth Anniversary of the Bretton Woods conference.[3] They include the seven broad issues listed in Table 1, where the range of views is indicated in cursory form by characterizing "traditional" and "more activist" roles for the Fund. The Fund's current posture on most of these issues lies between these two extremes.

For each of these issues, some member countries (and some individuals on the Fund staff) favour a more traditional role and others favour a more activist role. One could expect traditionalists to question the value of "greater adaptivity in the Fund" since, by definition, adapting implies a change from established ways of doing things. However, it is worth noting that a more activist role for the Fund (particularly on the issues of surveillance and breadth of focus) can include support for a greater market orientation, so that there is not a simple "right-left" alignment of views between the traditionalists and activists. As well, greater adaptivity does not necessarily mean a more activist role. For example, adaptation could involve moving to a minimalist role in some areas, such as in the area of exchange rate coordination, given the pre-eminent role of markets and the limited receptivity to outside advice of authorities responsible for the three major currencies.

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[1] This literature is, indeed, voluminous. A *selected* bibliography[1] published in 1992 cited 863 books and papers on the IMF, and this does not include most of the copious material published by the IMF itself.

[2] See, for example, Fischer (1995), Guitián (1992, 1994, 1995), Kafka (1994), Van Houtven (1994), and Wijnholds (1994, 1995).

[3] See, for example, the Proceedings of the Madrid Conference, Boughton and Lateef (1995) and the 742-page work by historian, Harold James, *International Monetary Cooperation since Bretton Woods*, (Oxford University Press, 1995).

Table 1: "Role of the Fund" Issues

Traditional Role	Issue	More Activist Role
• purely "monetary character" with short-term resources lent to facilitate return to balance	*"character of the Fund"*	• additional developmental role with longer-term focus and permanent resource transfers
• narrow "macroeconomic" focus on internal and external balances	*breadth of focus*	• wider focus to include "structural issues:" expenditure composition, regulation, governance, etc.
• confidential consultation and advice to authorities	*surveillance philosophy*	• more insistent consultation and more public information (discipline of markets and an informed public)
• (since 1973) multilateral review and ad hoc advice to authorities	*exchange-rate coordination*	• more formal monitoring and support for coordination by authorities
• limited multilateral surveillance	*capital flows*	• closer monitoring of flows and markets, bilateral surveillance, added mandate in Articles
• "catalytic role" in debt restructuring	*sovereign debt*	• "lender of last resort" role including facilitation of "orderly work-out"
• quota resources for "traditional" roles, GAB for "systemic crises"	*resourcing*	• quota resources sufficient for new roles and "systemic crises"

It is hoped that this paper can assist the ongoing debate on the role of the Fund by identifying the institutional factors that inhibit and facilitate change.

C. International Cooperation Problems for the IMF

International institutions are usually organized to deal with the "cooperation problem" of how best to secure a collective benefit — something that each country could have more of if it acted with others than if it acted alone. There are many types of collective benefits — examples in the economic sphere include the creation of pure public goods such as knowledge, the capturing of economies of scale in the provision of services, the reduction of transaction costs, the sharing of risk, the reduction in inter-country spillovers from imbalances, and the removal of restrictions on international flows of goods, services, payments, and capital.

An important distinction in the cooperation problem is that between "simple coordination"[1] and "collaboration:"

- *simple coordination problems* In these "dilemmas of common aversion,"[2] "states are more or less indifferent in principle about the actual outcome, provided only that all accept the same outcome....Incentives are high for states to order their relations on the basis of generalized principles of conduct. At least

[1] The literature usually refers to "coordination problems." The adjective "simple" has been added here to avoid confusion in the IMF context with "policy coordination," which, in the usual typology, is often a "collaboration problem."

[2] Kahler (1995) page 8

in the long run, therefore, the desire to reduce transaction costs tends to become a driving factor."[1]

- *collaboration problems* In these "dilemmas of common interests," countries would be better off if they all follow an agreed course of action, but all know that any one country could make itself better off (at least in the short term) if it deviated from the agreed set of rules. Such behaviour has a variety of names depending on the situation — e.g., free riding, defecting, reneging, derogating, or cheating.

For the issues examined in this paper, a more important distinction among cooperation problems pertains to the number of participating countries needed to obtain the optimal solution. Figure 1 provides stylized curves of the benefits and costs associated with reaching and sustaining an agreement among different numbers of countries. Two types can be distinguished:

- *multilateral (universal participation) problems* These can be defined as cooperation problems where the agreement with the greatest net benefit will involve all (or a very large number of) countries. Clearly, these are the ideal problems to be addressed by an international institution with universal membership such as the IMF.

- *plurilateral (limited participation) problems* These are cooperation problems where the maximum net benefit to participants can be obtained from agreements involving a limited number of countries. Plurilateral problems present a special challenge for a multilateral institution. Depending on the shapes of the curves, in some cases no net benefit is achieved with universal participation. In other cases, an overall net benefit could be achieved through an agreement involving all members even though a greater net benefit could be achieved through an agreement involving only a subset of the members.

Table 2 lists the major types of collective economic benefits that are pertinent to the IMF's role and the kinds of derogations from commitments that may tempt individual countries. The last type of benefit, development assistance, warrants special mention. Although part of the motivation behind developmental assistance is the pursuit of the collective benefit whereby all countries profit from increased global output,[2] such assistance is also intended to have an element of straightforward redistribution from the richer to the poorer nations. Pure redistribution is, by definition, a "zero-sum" process and relies on motivations other than material self-interest. The decision dynamic for the "redistributional problem" — which includes the dimensions of how much and how — differs from that for cooperation problems, which are positive-sum endeavours.

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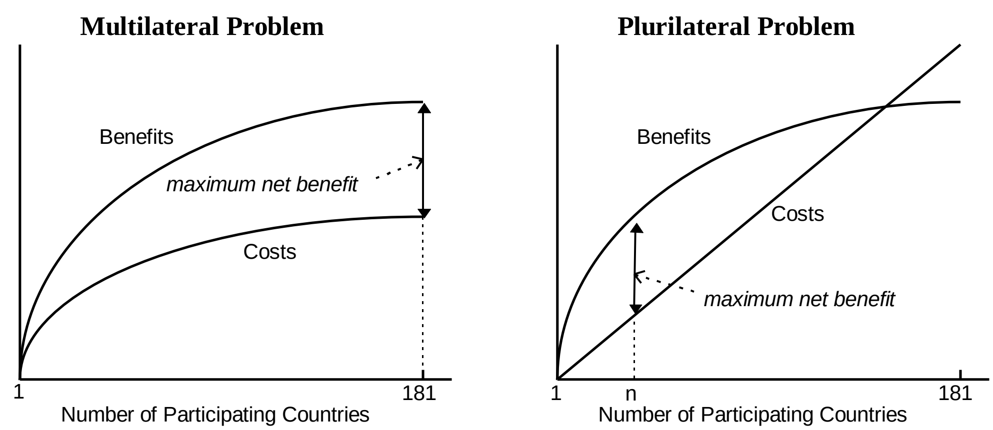
[1] Ruggie (1993) pages 16, 17

[2] There are aspects of national self-interest other than world growth, such as reduced poverty and consequent immigration pressures and promotion of domestic export industry.

Table 2 suggests that there is no shortage of international collective benefits that the Fund is capable of providing for members. Provision of most such benefits requires solution of the "collaboration problem," rather than the easier "simple coordination problem." However, some of the collaboration problems appear to be of a "plurilateral" character — where the greatest net benefit could be derived from agreements among a limited number of participants.[2] The implications of plurilateral problems will be discussed in more detail in Section III.B.

Figure 1: Distinction between Multilateral and Plurilateral Problems[1]



[1] The vertical axis in Figure 1 represents the magnitude of the total benefit and cost to participating countries of reaching and maintaining an agreement among any given number of countries. Possible additions to the participating group are made in order of their net benefits to the group. For example, n = 1 is a situation of no agreement; n = 2 could be an agreement between the U.S. and Japan; n = 3 an agreement of the "G-3 countries;" n = 7 is agreement among the "G-7 countries;" and n = 181 an agreement among all the IMF members. The curves are upward-sloping because (a) each country faces higher benefits and costs with each additional country and (b) the benefits and costs of the incremental country is added to the total. The net benefit of the arrangement for any number of participants is equal to the vertical distance between the two curves.

[2] In some cases, like the negotiation of trade agreements, it would appear that the problem lends itself to a plurilateral solution in the early stages. The successful negotiation of agreements among a limited number of participants can be viable in itself and also set the stage for the inclusion of more participants at a later date. Such a staged process can lower the costs of adding additional participants.

Table 2: International Collective Benefits Relevant to the IMF's Mandate

Benefit to Participants	Cooperation Problem	Optimal Participation	Example of Agreement or Output	Examples of Derogations from Commitments
Reducing barriers				
• for economic information	collaboration	universal	• Art. IV process	• withholding information
• for payments	collaboration	limited?	• Art. VIII	• restricting convertibility
• for capital investment	collaboration	limited?	• Art. VIII	• privileging nationals
• for goods (WTO lead)	collaboration	limited?	• WTO accession	• privileging nationals
• for services (WTO lead)	collaboration	limited?	• WTO accession	• privileging nationals
Reducing spillovers				
• from fiscal imbalances	collaboration	universal	• targets	• chronic deficits
• from interest rates	collaboration	limited	• joint action	• misaligned rates
• from exchange rates	collaboration	limited	• joint action	• misaligned rates
Producing pure public goods				
• international norms	simple coord.	universal	• data standards	
• knowledge	simple coord.	universal	• research papers	
• technical assistance	simple coord.	universal	• technical advice	
Exploiting economies of scale				
• pooling risk	collaboration	universal	• SBA	• postponing adjustment
• policy advice	simple coord.	universal	• Art. IV process	
• technical assistance	simple coord.	universal	• IMF Institute	
Assisting developing countries				
• increased world output/ transfer of resources (World Bank lead)	collaboration redistribution	universal	• ESAF	• reducing contributions, tying assistance to procurement

II. Arguments For and Against Greater Adaptivity in the IMF

The most general argument for more adaptation in the Fund starts from the widely shared view that there have been enormous changes in the economic and geopolitical environment in which the Fund and its members conduct their affairs.[1] While it is recognized that the Fund has adapted significantly in the last two decades to deal with these changes, the fact that these adaptations have been less extensive than in many other leading private sector, governmental, and international institutions could argue in favour of promoting greater adaptivity on the part of the Fund. The counter-argument begins from the unique nature of the Fund, which places a special premium on stability and consistency, and then on the observation that where change has really been needed, the Fund has shown itself capable of leading the process of adaptation. These arguments are elaborated below, along

[1] Leo Van Houtven notes that if one defines the fundamental challenge to be addressed by the IMF in its most general terms — *the restoration and maintenance of internal and external macroeconomic stability* — then one could say that although the environment has changed the challenge has not.

with some preliminary suggestions about what they might imply for adapting the role of the Fund.

A. Magnitude of Changes in the Global Environment

Capital flows and increased instability

The volume of private capital flows has grown beyond the wildest dreams of the Bretton Woods designers. This aspect of the globalization of markets has obvious benefits, but the Mexican peso crisis of 1994-95 illustrated that it can have costs as well. Opinions differ about the risk of international contagion and the magnitude of financial support that was necessary to deal with the Mexican peso crisis. The Managing Director has characterized it as "the first crisis of the 21st century."

Whether or not it constituted a "systemic crisis," it was certainly a crisis for Mexicans. Although it is not formulated in just this way in the Articles, the effective Fund role appears to be moving toward one of *"helping member countries retain the confidence of capital markets."*

More flexibility in exchange rates and independence in monetary policy

Most economists and central bankers now hold the view that a well-functioning private market is the best determinant of the relationship between currencies and that market-based hedging facilities provide mechanisms that minimize the real cost of exchange rate uncertainties to investors, producers, and consumers. As a result, national monetary authorities have focused monetary policy increasingly on domestic objectives.

The case for exchange-rate flexibility has been strengthened by the trend toward granting central banks greater independence from governments. In Europe this trend is linked to the objective of establishing a European Central Bank. Central bank independence tends to make international exchange rate coordination more difficult in that more actors and interests have the power to prevent an effective agreement.

There are articulate advocates — both inside and outside[1] the Fund — for more concerted action by authorities on exchange rates. Whatever the merits of the *goal* of closer coordination, most of the *means* to achieve it — such as coordinated intervention on interest rates and in foreign exchange markets — are perceived by the key actors as plurilateral issues, best resolved through participation of a very limited number of countries. Onno Wijnholds (1994) has reviewed the case for an intermediate solution of pursuing greater exchange rate stability on a regional basis giving more structure to the relations within a dollar bloc, an EMS bloc, and a yen bloc.[2]

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[1] See, for example, Williamson and Henning (1994), Bergsten (1994, 1995), Dobson (1995), and Goldstein (1995)

[2] Wijnholds (1994)

The IMF has a valuable role in providing objective analyses of the causes and impacts of exchange movements as well as providing a forum where members can express their views to representatives of authorities that manage internationally important currencies. The limits on the Fund's ability to act as a forum where exchange-rate-related actions could be coordinated are discussed in Section III.B. Its likely ongoing role, consistent with the multilateral character of the IMF, will be the indirect one of *ensuring that the major-currency countries are aware of the international community's views and by supporting sound domestic and external policies of individual members*.

Persistence of deficits

Government deficits were not seen as a fundamental problem by the IMF founders. Until the 1970s, government deficits and surpluses (like external deficits and surpluses) were viewed symmetrically — roughly equally likely and equally a reason for policy adjustments to gradually eliminate the imbalance.

Clearly, this is not the case today. The fiscal problem in most countries has become asymmetric — governments have far greater difficulty controlling deficits than surpluses.[1] In many countries government deficits are chronic, and the accumulated debt is potentially destabilizing. In some developing countries with little or no central bank independence, and no markets for government debt, deficits have been financed through monetization, but the need to deal with the inflationary consequences is now shifting the focus to deficit control. The requirement to assist members with fiscal problems has greatly increased the demands on the IMF's Fiscal Affairs Department, where it has been suggested that it is time to rename the institution the International *Fiscal* Fund.

These changes suggest that *the Fund should give promotion of fiscal discipline an even higher priority in its mission*. At the same time, one must be realistic about the influence that exhortation is likely to have on the deficits of major industrial countries. The IMF's most effective influence here is likely through its analytical work, which, if appropriately shared, can have an effect on domestic political processes.

Indebtedness of developing countries

The original assumption behind lending for development purposes was that loans would ultimately lead to sufficient additional growth to repay them without producing a debt burden that would become a drag on growth potential. For some countries the experience has been less satisfactory. In 1982, several large borrowers came to the point of default, threatening not just their own prospects but the health of the international financial system. The threat to the financial system has been averted, and the debt problem has shifted to that of the constrained development prospects for a handful of countries. How-

[1] There are many reasons for this phenomenon, including the rising expectations of citizens for government services. Governments are more able to accommodate these expectations in the short term in a world of floating exchange rates and capital markets eager to lend. David Finch (1989) has noted that one of the advantages of the former system of par value exchange rates was its contribution to fiscal discipline.

ever, it is increasingly clear that countries in this group are trapped within the current debt-servicing framework. International financial institutions are under increasing pressure to *define an approach to the problem of the indebtedness of the poorest countries in a way that permits resolution*.

Convergence of economic doctrine

The last decade has seen a remarkable convergence of thinking about the requirements of sustainable economic policy,[1] such that virtually all countries with centrally-planned economies in the 1980s are moving quickly toward more market-oriented economies. This view has been labeled the "Washington consensus" by John Williamson and encompasses the traditional Fund virtues of non-inflationary money expansion, fiscal balance over time, high savings and investment, market-based pricing and transparency.

The growing consensus may in part be due to the increasing dominance of the international economic profession by graduates of American economics faculties, and of similarly-oriented universities in other industrialized countries. For example, although only 41 percent of IMF professionals are nationals of English-speaking industrialized countries[2], 85 percent of those with PhDs in economics received them from their universities. The recent efforts to increase the representativeness of staff has led to a lower proportion of nationals from the English-speaking industrial countries being hired (25 percent in the last year) but the domination of North American universities continues — 90 percent of those with PhDs received them from the U.S. or Canada.

The consensus has a practical as well as theoretical foundation — all countries are feeling the market forces of increased global economic integration. There is thus a growing consensus that this trend *should* continue ("increased economic integration is the best way to promote increased global output and wealth") and that, in any case, it *will* continue. If this proposition is accepted, then it may be time to view one of the Fund's objectives as being *the advancement of sound economic principles in the policies of its member countries in order to achieve a better-integrated world economy.*

Changes in the relative power of members

In the early post-war years the United States dominated the world economy and, not surprisingly, the IMF decision-making process. It had virtual "single creditor" status and "the U.S. Executive Director [was] probably the most powerful man in the Fund."[3] The "hegemonic" role of the U.S. in multilateral institutions has been analyzed at length in the literature and the implications are summarized in Annex 2. However, this level of economic dominance inevitably declined as the war-ravaged countries rebuilt their economies.

[1] See Krugman (1995) for a look at some of the unintended implications of this consensus.

[2] The six industrial countries having English as one of their official languages: United States, United Kingdom, Canada, Australia, New Zealand, and Ireland.

[3] James (1995), page vii

Indeed, the relative power of states continues to change, due to such factors as conflict, commodity prices, demographics, role of reserve currencies,[1] and differential rates of productivity, savings and investment.

Sustained rapid growth in some countries, particularly in the Asia Pacific region, has led to some decline in the relative economic weight of countries of North America and Western Europe, but this trend should not be exaggerated. Indeed, as Annex 3 points out, the ordinal rankings of the major industrial countries have not changed significantly since 1967. In terms of decision making, perhaps the more important change has been the end of the Cold War. While this has left the United States as the unequivocal single superpower, it has likely changed its bargaining position with countries who formerly felt compelled to support its initiatives for reasons of collective security. In addition, waning political support for international institutions in the United States may serve to reduce the degree of initiative its representatives can take in these institutions. This suggests an emerging institutional challenge for the IMF may well be *how to take initiative on system-wide issues in an increasingly multi-polar world that can look less frequently to a single dominant power for leadership.*

B. Modesty of Changes in the Fund

While acknowledging that the Fund has undergone significant changes in its programs and its focus over the last decades, it could be argued that the Fund has changed less than the changes in the global environment would seem to warrant. Although the changes in the Fund have been greater than those in many international organizations, they have been much less extensive than changes in most major private sector organizations or in many domestic governments.

Relative to private sector organizations

The Fund has exhibited much greater institutional stability than most corporations operating in the private sector. During the last twenty years, many firms have dramatically changed their lines of business, corporate affiliation, organizational structure, size and location of labour force, and operating technologies. Most of these changes have been dri-

[1] There has been considerable debate about the role of the dollar in the world economy and the consequences of its long-term secular decline in value with respect to the yen and the deutsche mark (and currencies closely linked to them). The decline in the dollar is partly due to the decline in America's share of world trade and partly due to differences in national savings rates. However, a decline in the dollar's relative value does not necessarily signal a commensurate decline in its position as a reserve currency. If the experience with sterling is a guide, the world's leading reserve currency can be expected to possess considerable "historical inertia" so that the dollar will likely maintain an importance disproportionate to the relative size of the U.S. economy in the world. Jeffrey Frankel (1995) has recently listed four determinants of reserve currency status — economic size, developed financial markets, historical inertia, and confidence in the value of the currency. The first three are relatively independent of policy and are likely to favour the dollar for the next quarter century. The fourth factor could in principle disqualify the dollar if the Federal Reserve launched a high-inflation strategy but this is judged unlikely. Frankel notes that the dollar's standing as a reserve currency has actually increased in the 1990s.

ven by (or designed to stay ahead of) the market forces associated with the changed global economic environment.

Relative to governmental organizations

Change has also been dramatic in many national governments, whose institutions have undergone significant adjustments in size, mandate, programs, organizational structure, size, and internal operations.

The philosophy of change in public sector administration — often referred to as "the new public management" — has been largely inspired by the adaptations made in the private sector. Recent public sector reform has usually involved a blend of four themes: greater use of markets and market-type mechanisms, greater participation of employees and clients in the decision-making process, deregulation with respect of internal controls, and greater flexibility in operations (to speed up the evolutionary change process).[1]

The author has recently compared the administrative practices in the IMF with those in policy-making organizations in Canadian governments.[2] Many IMF practices have proved successful and would be attractive to most public sector managers. These include: clarity and focus in mandate, strength and tenure of executive head, sustained and high quality recruitment, high pay, substantial internal review capacity, and close integration of staff and line functions. Nevertheless, the relatively modest application of "new public management" principles at the IMF have left it behind many governments in some areas.[3]

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[1] For an international overview of public sector reform, see Peters and Savoie (1995); for a description of the application of such principles in the Government of Canada, see Clark (1994).

[2] Clark (1996)

[3] Three anecdotes related to information technology can illustrate the contrast between the degree of regulation (and rate of innovation) in the Fund relative to the Government of Canada.

- The response to a request to have a $200 CD-ROM unit installed in the author's office computer (to access such CD-ROM records as the Canadian Budget and reports of the Auditor General) was an unequivocal: "Sorry, this cannot be done because it could lead to similar requests from other Executive Directors, which could exceed the budget allocation for computer hardware in Executive Director's Offices." In contrast, as part of its administrative reform process, the Canadian Government has eliminated such detailed line-object budgeting in favour of global budgets assigned to managers to be spent in accordance with local priorities. In the IMF, it is still not possible for a manager to substitute a CD-ROM player for a printer purchase, let alone the possibility of downgrading one international trip from business class to tourist class to secure the $200 to be devoted to computer hardware.

- In 1993, the administrative heads of three organizations (Department of Finance, Treasury Board Secretariat, and Office of the Comptroller General) with a combined number of employees comparable to the IMF, decided to combine their information technology groups and upgrade their computer systems from mainframe to a client-server architecture and more user-friendly software. It took 12 months to consult with users, make the organizational amalgamation, prepare the specifications, go to tender, select the winning bid (a Windows™ "of-

The relative stability of the IMF's internal practices can be partly attributed to the unique characteristics of international institutions. The principal stimulus for change in national governments — the domestic political process — is largely absent from international institutions.[1] There is no high profile media scrutiny of decisions, no daily parliamentary process where actions have to be defended (and changes promised) in a body of elected representatives, no group of elected supporters whose views have to be taken into account to ensure majorities for votes, no focused public concern about administrative practices, and no electoral event at which the tenure of the decision-makers as a group is determined. Although there is a clear formal accountability structure for the IMF and its decisions, it operates in a much less immediate and public way than in national governments.

One of the key change-inducing factors in most countries, the political limits on the ability to raise revenues to pay for institutional expenditures, has led to a much sharper sense of fiscal restraint than in many international institutions. This is likely to change over the next few years, at least for institutions that rely on regular contributions from their members, as member budgets continue to be restrained. The budgetary decisions of the IMF, which has a more independent revenue source for administrative expenditures than almost all other international institutions will be watched with interest.

There is also less urgency associated with most IMF decisions and fewer minor crises that impinge on the regular flow of business than in national governments. At the same time, within any given subject area, the IMF's universal membership means that a greater range of interests have to be accommodated. Since the need to respond to crises tends to facilitate change and the need to accommodate widely divergent interests tends to inhibit change, it is not surprising that institutional adaptation is slower at the Fund than in most governments.

Relative to other international institutions

The Fund has changed more than many international institutions — particularly those in the United Nations family — in response to changed global circumstances. However, Miles Kahler, in a recent Brookings monograph (and echoing an assessment made by

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fice suite" system), install the hardware and software, and train over 2000 users. In the IMF, the process of undertaking a much less comprehensive upgrade (the migration from a client-server DOS-based system to a Windows system) was begun in 1993 and is expected to be completed in 1996.

- The format for IMF papers is currently undergoing its first comprehensive revision since 1981. Since the 1981 format had to be capable of production on electric typewriters, for the last decade the Fund has not been able to take appropriate advantage of the modern word processor's potential for improving document readability.

[1] It is worth noting that the domestic political process can, in some circumstances (such as those popularly characterized as "policy gridlock"), act to inhibit change.

Barry Eichengreen and Peter Kenen during the Fiftieth Anniversary reflections) has argued that the IMF has been less adaptive than the GATT.[1]

C. Merits of Consistency and Risks of Responsiveness

Financial institutions, particularly central banks, are expected to place great emphasis on stability, predictability, and caution. Members have similar expectations of the Fund, which has a fiduciary responsibility for its members' contributed resources, and expect it to advise them on politically crucial issues. [2]

From the beginning, this was recognized as a key design issue for the Fund. In his pre-Bretton-Woods drafts, Keynes "wrestled with the most difficult question, to determine...how much to decide by rule of law, and how much to leave to discretion."[3] The founders came down largely on the side of stability and detailed rules. By the time it came

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[1] See Kahler (1995) and Eichengreen and Kenen (1994). Kahler's analysis is summarized in Annex 2, Section 7. Many commentators within the Fund have questioned Kahler's conclusions. For example, Shailendra Anjaria, noted: "The 'old' GATT always faced the difficulty that its Articles could not be easily amended, and in the late 1970s and early 1980s many believed that if an attempt were made to amend them, GATT rules would become more permissive (of restrictions) rather than remain a force for liberalization. This inflexibility is why, in successive rounds of trade negotiations, GATT members had to adopt the device of codes — on subsidies, antidumping, etc. — that not all of them subscribed to. The problem with the codes was that they directly or indirectly undermined the unconditional MFN principle on which Article I of the GATT is based. The codes, while perhaps providing a degree of flexibility, also added to confusion about the rights and responsibilities of GATT members. A fundamental difference between the Fund and the GATT is that the latter sought to treat different classes of countries differently, for example under the special and differential treatment provisions of Part IV under and the special protocols of accession of the (then still centrally planned) Eastern European countries, which were given quantitative targets for annual increases in imports from GATT members. This may have been a sign of flexibility, but it contrasts with the Fund's experience, which is that uniformity of treatment under Fund rules has not hindered, and may have even helped, countries to achieve certain standards such as those laid out in Article VIII. For example, since 1993, 40 countries, including 11 transition economies, have accepted Article VIII, bringing the total of such countries to 114. As well, over the years there developed a large and growing gap between the letter and the spirit of GATT rules and their actual observance, which has no parallel in Fund history. The Multifiber Arrangement was the most infamous of GATT derogations. Similarly, none of the customs unions that exist today has passed the test of Article XXIV of the GATT. Exceptions to the basic GATT prohibition of discriminatory restrictions abounded in areas of agriculture, steel, shipbuilding, etc. In contrast, in the area of capital account convertibility, Fund member practices have actually run ahead of the Fund's Articles of Agreement. The recent establishment of the WTO is a confirmation of governments' view that much more than the 'old' GATT was needed." On the basis of these observations, Anjaria draws almost the opposite conclusion to Kahler: "despite being a rule-based organization, the Fund has done rather well (and probably better than GATT) in enforcing the code of conduct that is embodied in its charter."

[2] In his comments on this paper, Onno Wijnholds suggests that it is more appropriate to compare the Fund to a central bank than to a government. He believes that the Fund "should remain primarily a monetary institution with strong emphasis on maintaining stability." Given that "the Fund has been one of the (if not the) most adaptable international organizations, pushing for even more adaptation would … risk giving up a degree of stability that could weaken the cohesion of the institution."

[3] James (1995), p. 37.

to determining the kinds of people he expected to oversee the two Bretton Woods institutions, Keynes had a clear distinction in his mind:

> "I should like to see the Board of the Fund composed of cautious bankers and the Board of the Bank of imaginative expansionists..."[1]

The anticipation of responsiveness on the part of institutions can lead to perverse incentives. Moral hazard occurs when individual decision makers take actions that are collectively detrimental yet privately beneficial when the institutional response is taken into account. Rodrik and Zeckhauser[2] have called this "the dilemma of responsiveness." Similar conclusions are found in analyses of rules versus discretion in monetary policy.[3]

D. Success of the Fund in Crisis Management

The final argument against the need to make any special efforts to improve the Fund's adaptiveness is that it has always shown the capacity to adapt when a crisis demanded it. Following the first oil shock in 1973 the Fund moved quickly to introduce the oil facility and to secure a multi-billion dollar contribution by Saudi Arabia. Its reputation as crisis manager was firmly established through the role it played in the 1982 debt crisis. Working with the World Bank and the European Bank for Reconstruction and Development, it has played a central role in the provision of financial and technical assistance to the former centrally-planned economies of Eastern Europe and the former Soviet Union, and working with the U.S. it has played a crucial role in the resolution of the peso crisis of 1994-95.

Louis Pauly has described this period as an evolution of the Fund's role "from monetary manager to crisis manager." He suggests that if they could be reassembled, most of the delegates to the Bretton Woods conference "would likely be stunned by the changing character of its financial role."[4]

It is also important to recognize that the Fund does not require a crisis to initiate changes in its programs and procedures. Recent examples of such initiatives include the modification of the scope of the Emergency Assistance Policy to encompass countries emerging from conflict, Fund support for currency stabilization funds, as well as the continued deliberation on the adaptation of ESAF and on the problems of heavily indebted low-income countries.

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[1] Cited in Hexner (1964)

[2] Rodrik and Zeckhauser (1988)

[3] Barro (1986)

[4] Pauly (1993) page 123

III. Factors that Tend to Inhibit Adaptivity in International Institutions

This section reviews some of the general features of international institutions that affect adaptivity. Each of these factors tends, in most situations, to inhibit institutional adaptation. However, it must be emphasized that in some circumstances, and with the appropriate handling, these features can help in the process of change. Both possibilities will be noted in the discussion that follows.

A. Rules and Uniform Treatment

Solving the collaboration problem requires "changing the contractual environment." This can be achieved through introducing new rules and procedures which:

- *increase the number of transactions* between participating states over time (e.g., Executive Board deliberations) and thereby invoke the "shadow of the future" to deter reneging in the short term. This gives the potential victim of reneging a chance to retaliate and rewards states which acquire a reputation for adhering to the rules;

- *provide for linkage* of interactions from different issue areas, which reduces the incentive to renege (the multitude of Executive Board decisions in the course of the year provides ample scope for informal linkages, although they are rarely made explicit);

- *increase the amount of information* available to participants (e.g., through surveillance discussions) so that close monitoring is possible — both to increase the chances that renegers will be caught and to provide potential victims with early warning; and

- *reduce transaction costs* of individual agreements, by relying on the institution to do much of the negotiating and monitoring.[1]

It can be seen that many of the rules associated with international institutions are designed to provide greater stability in the contractual environment. This underlines a central dilemma: *firm rules of the game are needed to assure cooperation between states, but this very firmness tends to make it difficult to change the rules and adapt the institution to changing circumstances.*

Some approaches to rule-making appear to be more conducive to institution adaptation than others. Kahler[2] makes the distinction between two types of rules used to govern the mechanisms of reaching decision:

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[1] This list is adapted from Mearshiemer (1995) who draws from Keohane (1984) and Stein (1990).

[2] Kahler (1995)

- *substantive rules,* such as those used in the Fund, which embody the regime specifying how particular activities (e.g., current payments) should be conducted.

- *procedural rules,* such as those used in the GATT, which set out the way in which ad hoc bargaining or more regularized channels of bargaining are to work to deal with issues that are not specified in advance.

The former approach has the advantage of assuring members that they will be treated uniformly in a given situation. Clearly, there is less assurance of equal treatment in the procedural-rules approach where the outcome will depend on the result of bargaining between a restricted number of parties. However, Kahler and others have suggested that, by their very nature, institutions based on substantive rules are less adaptable to changing circumstances than those based on procedural rules.

The other side of the coin is that in an institution that has a tradition of abiding by rules, if a consensus can be developed to change the rules — as can occur most readily in times of perceived crisis — then the institution can change quickly and in a disciplined way as it follows the new rule.

B. Universal Membership with Plenary Decision Making

Institutions with universal membership that are compelled to take decisions in a forum representing all the members (such as the Fund's Executive Board) have a fundamental limitation: *they are ill-suited to deal with "plurilateral problems."*

As noted in Section I.C, there are problems on which progress can only be made through agreements among a limited number of countries (as was the case in the initial stages of the Uruguay round of the GATT). For the IMF, the perennial example of such a problem is that of exchange rate coordination among the major currencies. By definition, the actions of only a few countries need to be coordinated. The benefits of a successful agreement do not increase significantly as the number of participating countries rises above four or five, but the potential costs — through delays and leaks — increase dramatically.

A similar problem can be found in the current discussions over ways to increase the contingent resources available for the Fund. Indeed, since the inception of the G-10 and the General Arrangements to Borrow, there has been a tension between the desire of the Fund to have arrangements sanctioned by the universal membership, and the desire of the contributing countries to minimize the number of countries involved in the decisions to commit their resources.

One could imagine a radical change in IMF procedures whereby decision-making panels were constituted with membership determined so as to maximize the net benefit in the solution to a particular plurilateral problem. Each group (e.g., a "Reserve Currency Coordination Panel" and a "Supplementary Fund Resources Panel") could be convened at an appropriate level (e.g., Finance Ministers and Central Bank Governors, or Deputies, or Executive Directors) and have procedure-based rules designed to minimize the costs of reaching and maintaining agreements among the panel members.[1] The role of the IMF management and staff in supporting the panels could, in principle, be very much as it is today with the Executive Board — providing analysis, developing proposals, and monitoring agreements. However, to be effective, it would have to be clear that such staff work was uniquely for the use of the panel members and not to be shared with the rest of the IMF membership without a decision of the panel.[2] This role is similar to that proposed by Wendy Dobson[3] for the IMF in the G-7 Finance Ministers forum, except that the panels would be new institutional structures (and not necessarily each with seven members) *inside* the IMF.

Such a change would indeed be radical, because, even if the Panel members could be convinced that the staff would be working solely in their interests, the rest of the IMF membership would probably object. Such non-inclusive, non-uniform treatment would be viewed as inconsistent with the multilateral character of the institution — even if most IMF members would benefit from agreements reached exclusively among panel members. It may be possible to seek second best solutions through informal roles that the IMF staff and management can play in bilateral dealings with individual members or through participation in plurilateral institutions, such as the G-7 and G-10.[4]

Even if it is not deemed possible to incorporate plurilateral decision making into the IMF, it would be in the interest of the institution to develop procedural changes to "lower the decision-making cost curves" (see Figure 1 in Section 1.C) so that some of the currently "plurilateral problems" can lend themselves to multilateral solutions.

C. Consensus Tradition

The Fund's decision-making system has elaborate procedures to encourage consensus. Great care is taken to allow the time necessary to produce very high quality pa-

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[1] Manuel Guitián suggests there may be value in having on such panels an extra member elected by the rest of the membership to represent its collective interest.

[2] Jack Boorman questions whether the effectiveness of the Fund's analysis for plurilateral groups would be undermined by being shared with the full membership. He notes that "the fact that the Fund does not have a seat at the decision taking table of plurilateral groups no more detracts from our effectiveness than does the fact that we have no seat at the Cabinet table of individual members. That being said, a case can certainly be made for the G-7 (as well as individual members and other plurilateral groups) to make more effective use of the Fund's analysis and policy advice, and to consider means to provide the Fund a presence in the room if not a seat at the table."

[3] Dobson (1991, 1995)

[4] This is reflected in the current practice of having a member of the IMF staff act as secretary of the G-10 meetings, and the invitation to the Managing Director (Director of Research in the case of the Deputies' meetings) make a surveillance presentation at the G-7 Finance Ministers meetings. However, the IMF management and staff does not attend the "decision-making" parts of the G-7 meetings.

pers, to give Executive Directors adequate opportunity to consult their authorities, to meet with staff for any clarification, to consult among themselves, and to take as long as they wish at the Board to make their views known before the decision is taken. The process also includes numerous informal meetings convened by the Managing Director — annual retreats, monthly lunches, informal meetings, Board Seminars — to test ideas and allow Directors to express themselves at an early stage of the process.

This process produces admirable results — decisions that stick and minimal rancor. However, the time and energy that go into the decision-making process means that institutional adjustment in the absence of a perceived crisis is very slow. Indeed, most of the major adaptations in Fund procedures have come in crisis situations where the regular decision-making process has had to be truncated. On the other hand, it could be argued that it is the trust and goodwill built up during the "regular process" of decision making that facilitates rapid decision making when it is clearly needed. A less leisurely system of decision making might reduce the level of trust and shared understandings and make difficult decisions impossible.

D. Divergent Country Interests

One intrinsic element of any institution that tends to inhibit change is the difference in the interests of individual members.

Given the vast differences in the economic situations and political systems in the 181 member countries and the different types of benefits that they derive from membership, it is not surprising that their positions differ on many issues. Some of the differences are easily predictable: since virtually all countries would like to see their quota share increased (to provide for more voting power and more access to resources) and their share of the costs decrease, positions are fairly predictable in discussions of adjustments to quotas and arrangements for burden-sharing. Similarly, on the issue of access to Fund resources, debtor countries understandably tend to argue for more generous limits than creditor countries.

However, there are many issues other than those of "who pays, who gets, who decides" in which country interests are less obvious but in which positions are rather consistent over time. Country positions on the "role of the Fund" issues noted earlier in Table 1 are fairly stable. In addition, there are a number of issues of political economy that also seem to underlie the positions taken by countries on decisions coming to the Executive Board. These are listed in Table 3 and can, with some effort, be arrayed on a "left-right" spectrum. Although few of these issues are debated directly, they often seem to determine the positions a country takes on issues that arise in country or policy discussions. On some of the issues, such as the consumption *vs.* savings trade-off, one could argue about which should be classified as left or right, but in most cases, the "right" is the direction of less intervention in the economy (on the part of governments or the IMF).

The management and staff also have relatively consistent positions, with the staff view on most issues usually being "to the right" of management and most of the membership.

The position of some countries — such as that of the U.S. and Germany on exchange rate flexibility — depends on the circumstances. While both countries support flexibility in the dollar-deutsche mark exchange rate, Germany has supported fixity within the European Monetary System and the U.S. has supported fixed rates — for at least a transitional period — in currencies of the formerly centrally-planned economies.

While some of the differences in positions taken by countries on issues such as those in Table 3 are due to "objective" differences in their economic situations, many of the differences would appear to be due to less quantifiable differences in "national culture." It is clear from other policy areas that national differences in culture and values can have a profound effect on country positions. In a fascinating study of medical practices in the U.S., France, Germany, and the U.K., Lynn Payer[1] shows that, despite the common perception that medical science is based on internationally-agreed facts, approaches differ dramatically among the four countries. Although medical effectiveness appears roughly equal in each, there are great differences in established treatments for the same symptoms and differences in the use of pharmaceuticals (e.g., dosage rates that differ by more than a factor of ten), and intrusiveness of surgery. Payer traces the "aggressiveness" of American practitioners, the "Cartesian thinking" of French doctors, the "skeptical empiricism" of the British medical establishment, and the "lingering influences of Romanticism" on German medicine to unique social histories and values in each country. To the extent that the science of ministering to an economy has any parallel with that of ministering to the unwell, one could expect to find national differences in experts' analytical approaches.

[1] Payer (1992)

Table 3: Issues on which Countries (and IMF Staff) often have Relatively Consistent Positions over Time

"Left" End of Spectrum	Issue	"Right" End of Spectrum
• policies favouring growth with "sustainable" inflation	*short-term growth vs. inflation*[1]	• policies to minimize inflation, even with cost to growth
• policies favouring competitiveness of exports over a strong currency	*competitiveness vs. strong currency*	• policies supporting strong currency over competitiveness and growth
• policies to raise minimum incomes and improve safety nets	*income equality vs. employment*	• policies to promote market-clearing wages and incentives to work
• policies favouring immediate consumption	*consumption vs. investment*	• policies favouring net saving and investment
• arrangements to peg the national currency to another currency	*fixed vs. flexible exchange rates*	• allowing the market to determine the value of the national currency
• government works with "chosen instrument" sectors and firms	*industrial policy vs. free markets*	• government remains "arms length" from companies

Indeed, given the vast differences in culture among the 181 members, it is perhaps surprising that the Fund's Executive Board is able to reach a genuine intellectual consensus on so many issues. As noted earlier, the differences in analytical approaches seem to be narrowing over time, and many countries are (perhaps reluctantly) coming to terms with some of the social values associated with the freer operation of markets in their national economies. Nevertheless, the magnitude of cultural differences is such that consensus over institutional changes to the Fund will always be difficult to achieve.

E. Organizational Inertia

Dozens of books have been written about how organizations cope with uncertainty and change.[2] Most organizations try to avoid both and develop standard operating procedures with which the people that use them become familiar. Even in institutions where there is a common sentiment that things must change, there is considerable potential for entities within the structure to resist changes that will reduce their importance.

The influence of such organizational interests within the IMF has been analyzed by Vaubel[3] using public choice analysis and by Strange[4] using more traditional institutional analysis. These studies are summarized in Annex 2. Regardless of the specific interests in-

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[1] There have been several recent studies that have demonstrated that there is likely no trade-off between long-term growth and inflation — indeed that significant inflation usually reduces long-term growth (Guitián, 1995). However, there is still debate on the existence of a trade-off at low levels of inflation and most economists agree that there is a trade-off in the short term.

[2] The classics include Cyert and March (1963), Downs (1967), Simon (1976), Wildavsky (1979), Wilson (1989)

[3] Vaubel (1991). See also Rabushka (1989)

[4] Strange (1973)

volved, one would expect institutions that are generally recognized to be working well to be particularly skeptical about proposals for change.

IV. Factors that Tend to Facilitate Adaptivity in the IMF

If there are a number of features of international organizations — especially those with universal membership and "substantive rules" — that tend to inhibit adaptiveness, there are also a number of factors specific to the IMF that tend to facilitate change. This section begins by looking at the issue of taking initiative and then reviews a series of factors that, on balance, encourage adaptation in the institution. As in the previous section, some of these factors could work in the opposite direction under certain circumstances.

A. Tradition of Taking Initiative

Initiative is crucial in any process of adaptation and, as noted earlier, the IMF has developed a tradition of taking initiative — particularly in crisis situations.

It takes initiative to define a problem in a way that is amenable to institutional resolution, initiative to help develop a consensus for a particular course of action, and initiative to mobilize the resources to carry it out. Even though it may look as if major decisions somehow emerge automatically from the constellation of national interests, the actual process is more intriguing. There was little that automatically put the IMF and its Managing Director at the centre of the 1982 debt-crisis resolution — indeed, given the developing-country locus of the problem, one might have thought that if any international agency were to have taken a key role, it would have been the World Bank.

Table 4 examines the degree of support necessary from different parties for different types of Fund decisions. Degrees of support can range from: enthusiastic (willing to take, or share in taking, the initiative) through to acquiescence. Degrees of opposition can range from abstention (which differs from acquiescence in its signal that "next time we may formally oppose"), to negative vote and continued active opposition. For most issues, more than a "technical minimum" of support is required to make things happen. The difference between the technical minimum and the actual support can be taken as a rough measure of the degree of initiative necessary to change course in an organization like the IMF. Table 4 indicates that management (and staff) initiative plays a crucial role in IMF decision making.

For major new departures (e.g., debt crisis, ESAF, former Soviet Union, Mexico) the *specific* initiative tends to come from management, formulated so as to be consistent with the (strongly-held and usually publicly-expressed) *general* preferences of the major shareholder(s) and the (sometimes latent) preferences of the majority of developing country members. Once a specific proposal is formulated, the supporting countries work, with varying degrees of energy and initiative, to help refine the proposal and broaden the consensus. It would appear that management initiative is a necessary condition for taking a major new decision at the IMF. It is not a sufficient condition, however, since (as the SDR allocation issue demonstrates) a coalition of major shareholders can block any particular proposal.

Table 4: Range of Support Necessary for Decision

Type of Decision	"Technical Minimum" Support Necessary for Decision[1] / *Actual Role in Recent Decisions*			Apparant Initiative Necessary
	Member Countries	Management	Staff	
response to a crisis	acquiescence of necessary majority	low (for a decision not to take the lead)	low (for a decision not to take the lead)	high
	enthusiastic support by some, acquiescence of most of remainder	*key role in problem definition, developing options and brokering*	*enthusiastic support by many (and creative work on "options")*	
new program	acquiescence of necessary majority	acquiescence	acquiescence	high
	enthusiastic support by some, acquiescence of most of remainder	*enthusiastic support and strong brokering role*	*enthusiastic support and creative work on "options"*	
change in voting power, access limits, or burden sharing	acquiescence of necessary majority	little	none	high
	enthusiastic support by some, acquiescence of most of remainder	*key role in developing options and brokering*	*creative work on "options"*	
"routine" operations	acquiescence of necessary majority	medium	high	low
	enthusiastic support by some, acquiescence of most of remainder	*medium*	*high*	
administrative budget	acquiescence of necessary majority	medium	low	medium
	active interest by some	*high*	*medium*	
administrative practices	acquiescence of necessary majority	medium	medium	low
	active interest by some	*medium*	*medium*	

[1] The technical minimum consists of a positive vote of the necessary majority of the members and sufficient willingness on the part of the management and staff to implement the decision effectively.

B. Commitment of Members

Because most members value the service provided by the IMF, they have an interest in devoting time and effort to keep improving the way it functions. However, the nature of the benefits that countries derive from their membership differs. To better understand the forces for and against change, it is worth analyzing these differences.

Particular IMF services are more valuable to some countries than to others. An individual country's assessment of benefits depends on its judgments about what others would do in the absence of their participation in the IMF. For example, the IMF's "crisis manager" role is usually directed at mitigating systemic dangers. It could be argued that this function is judged most valuable by the major powers, to whom the responsibility would otherwise fall. Even though smaller countries ultimately benefit — perhaps disproportionately — they may not perceive this service as a major benefit of membership because they would not expect (nor be expected) to play a large role in the resolution of crises if there were no IMF.

The major powers may find the IMF more effective than bilateral representations in encouraging a country to take a particular course of action. Put more positively, the IMF may be seen to provide a better vehicle for assistance to a country than bilateral initiatives. Action through the Fund has the advantages of (a) depoliticizing the advice, (b) providing the best available technical advice and support, and (c) having credible performance incentives in terms of conditionality of financial assistance and monitoring. Large countries also place high value on the information the Fund provides about all member states since, in its absence, such countries would feel obliged to do more international monitoring themselves. Again, smaller states gain a great deal from this activity, but they may not associate this with their membership in the IMF because they assume that they could have had most of this benefit even if they were not members of the IMF.

On the other hand, although most Finance Ministers value the moral support provided by the Fund, the largest countries would not be expected to find the IMF's advisory function as useful as the smaller countries because they have their own top-flight advisors. Of particular benefit to newly-created nations is the "badge of nationhood" provided by membership and participation in the IMF.

In many countries the Fund missions and surveillance process act as a political catalyst for national policy decision making and promotes coordination and collaboration within the national government. Even where there is a general recognition that a new macroeconomic stance is necessary, disagreements among decision makers can easily paralyze the process of choosing and implementing sound policies. The arrival of a Fund mission and the associated discussions of policy issues — including with Fund management in special cases — can stimulate the compromises and decisions needed for the authorities to formulate a credible macroeconomic package.

The access to financial assistance is now viewed as almost exclusively a facility for use by transition and developing countries, as is technical assistance. Providing a "seal of approval" on a country's macroeconomic policies is becoming increasingly important as more official and private lenders seek an IMF assessment as a condition for their involvement.

The major services and benefits likely perceived by the member countries are listed in Table 5.

Table 5: Differential Benefits of IMF Services

IMF Service	Value to Member		
	Major Power	Middle Power	Developing/ Transition
• capacity to manage systemic crises	high	medium	medium
• capacity to influence others' policies	med-high	medium	medium
• intelligence about others' policies	med-high	medium	medium
• research and knowledge	medium	medium	medium
• policy advice and moral support	medium	medium	high
• catalyst to national decision making	low	medium	high
• technical assistance	low	medium	high
• access to funds	low	low	high
• seal of approval for borrowing	low	low	high
• "badge of nationhood"	low	low	high

Table 5 suggests that benefits of IMF membership are now fairly well balanced. Since the various benefits are associated with different IMF roles (and, to some extent, with different organizational entities with the institution), proposed changes to the role and operations of the Fund will likely be viewed differently by different members.

C. Culture of Discipline and Excellence

The organizational literature has given increasing prominence to the relationship between "institutional culture" and the ability to adapt to changing circumstances.[1]

The self-image of being the most agile and effective of the major international institutions has been carefully cultivated by successive Managing Directors. A prized element of the Fund's culture — one that tends to distinguish the IMF from most other international institutions — 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 structure and highly developed internal procedures to

[1] Deal and Kennedy (1982) were the first to popularize the idea.

encourage questioning and debate at an early stage but to act with Cabinet-like solidarity after decisions are made. [1]

There have been many attempts to categorize organizations to specify the best structure and style for its purposes and culture.[2] And there is still a debate about whether and in what circumstances hierarchically disciplined organizations are more adaptive than those which have achieved a more "employee-empowered" culture encouraged by many of the "re-invention" exercises taking place in the private and government sectors. It is clear that a hierarchical structure can facilitate rapid and coordinated adaptation when the management determines that a change should be undertaken. On the other hand, more "employee-empowered" organizations can benefit from a greater diversity of views and more local innovation.

The Fund's commitment to excellence and its success in meeting its challenges leads to relatively high morale — particularly at the senior levels and in the departments viewed as most central to the Fund's mission. However, the prospect of changes in the Fund's role and mode of operation understandably causes anxiety in parts of the organization, particularly among the older professionals who will worry about the Fund moving outside its established areas of competence. Strains are created by the need to expand the Fund's dialogue with members from the traditional areas of macroeconomic and balance of payments policy into the more judgmental areas of expenditure budgeting and structural reform.

In order to sustain the excellence of staff support, any significant adaptations in the Fund's role would have to be accompanied by concerted efforts at staff development and renewal.

[1] These cultural attributes were discussed in an exchange during a recent IMF seminar. Professor Arnold Harberger suggested to the Managing Director that the image presented to client countries by the Fund is more institutionally disciplined than the World Bank. Harberger suggested the image of the latter "is something like a traveling seminar, while that of the Fund is like a commercial bank in that there is a single corporate line in dealing with the outside world." In response, the Managing Director, while disassociating himself from Harberger's characterization of the World Bank, declared that as far as the Fund is concerned, "the intellectual discipline will be maintained while I am here — we deal with crises and we cannot have our troops rethinking strategy on the field of battle."

[2] The work by Henry Mintzberg[2] seems most relevant to the Fund and is summarized in Annex 2. According to Mintzberg's typology, the Fund might be described as a hybrid, with a rough balance of *innovative* and *machine* characteristics, but with strong *professional* and *missionary* overlays, capable of acting *entrepreneurially* on any issue deemed crucial by the Managing Director. The complexity of the IMF's role means that it cannot avoid being a hybrid organizational form and, according to Mintzberg, will necessarily lack the kind of organizational coherence that can be achieved by institutions that have a dominant configuration and are consequently easier to manage and to explain to employees and shareholders. For example, Mintzberg suggests that a predominantly "machine organization" can act like a smoothly functioning instrument and be proud of its efficiency even if it means a reduced capacity to innovate; a predominantly "professional organization" can be proud of the proficiency of its individual units even it means a reduced capacity to take institutionally-binding decisions.

D. Relationship Between Staff and Member Countries

One of the modern management dictums that the IMF has traditionally applied is that of "staying close to your customers." The relationship between Fund staff (and management) with national monetary authorities has generally been strong. The broadened scope of the Fund's activity (that now includes advice on structural policies and composition of expenditures) has led to a wider and deeper relationship with many member countries. In addition, the Managing Director and the three Deputy Managing Directors have increased their visits to capitals, strengthening the personal and institutional relationships with elected representatives.

While it might be argued that this closer relationship to member governments tends to soften the hard edges of the Fund's advice, it does serve to make the institution more sensitive to the changing needs of its membership.

E. Relationship Between Management and the Executive Board

Leo Van Houtven has characterized the relationship between the Fund management and the Executive Board as being one of "healthy tension."[1] To the extent that this tension remains healthy, it is likely to be a continuing stimulus to adaptation.

The relationship is kept productive by the mutual recognition of interdependence. The key institutional outputs (country surveillance reports and program arrangements) need the Board's approval, and are taken seriously by most of the authorities whom the Executive Directors represent. Board members take pride in bringing high quality and independent analysis to the table. At the same time, the Board can achieve little without the cooperation of the management and staff, who, in addition to possessing detailed knowledge, possess the mandate for conducting surveillance reviews and program negotiations with member countries.

When working well, the process of accommodation between management and the Executive Board can achieve an optimal balance between sensitivity and rigour.

F. Voting Mechanisms

The weighted voting procedure is viewed by many scholars to be one of the principal reasons for the IMF's effectiveness. Frederick Lister[2], a long time senior official in the United Nations, has identified lessons from the IMF that might be applied to the United Nations and its agencies. He concludes that "the voting system has been a kind of subterranean centerpiece of the Fund's decision-taking machinery."

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[1] Van Houtven (1995)

[2] Lister (1984)

In addition to the weighed voting there is a system of special majorities that gives individual (in the case of the U.S.) and groups of countries (e.g., Europe, major donors, developing countries) the knowledge that they could ultimately block certain measures if the final result is unacceptable. Although this might be considered a factor that inhibits change, it probably has the opposite effect, giving countries the confidence to engage in consideration of changes without fearing that they could lose control over the final outcome.

G. Resource Availability

Finally, it should be noted that the willingness of the membership to support new initiatives is related to the liquidity position of the Fund at the time. New departures, such as those to deal with the 1982 debt crisis or the Mexican peso crisis of 1994-95 were easier to take because of the comfortable liquidity position of the Fund in the early 1980s and the mid-1990s.

V. Conclusions

A. IMF Strengths Can Facilitate or Inhibit Adaptivity

Sections III and IV have been organized in terms of factors that, on balance, tend to inhibit or facilitate institutional change. However, it was also noted that these factors are complex and in certain circumstances can have the opposite effect on adaptivity. The double-edged nature of these features is summarized in Table 6, expressed in relation to

Table 6: Change Facilitating and Inhibiting Aspects of the Traditional IMF Strengths

Potential for Facilitating Change	Traditional IMF Strength	Potential for Inhibiting Change
• concentrates expertise and avoids getting distracted by other issues	*focus on economic issues*	• may underestimate importance of non-economic elements
• promotes broad ownership of, and commitment to, decisions	*uniform treatment*	• delays decisions and risks “lowest common denominator” consensus
• provides the legitimacy of representativeness	*universality of membership*	• delays decisions and risks “lowest common denominator” consensus
• facilitates knowledge of local situation and wishes of authorities	*relationship with authorities*	• can discourage needed but politically difficult advice
• permits rapid and concerted action once decision is made	*organizational discipline*	• can discourage unorthodox thinking by the staff
• provides recognized expertise and oraganizational self-confidence	*technical competence*	• can encourage arrogance and underplaying of social factors
• promotes innovation by “pushing of the envelope” of the mandate	*creative management*	• may alienate more conservative members
• promotes innovation and rigour if tension is “creative”	*management-board relations*	• may lead to deadlock or lowest-common-denominator decisions
• provides ability to deal rapidly with emerging crises	*substantial liquidity*	• encourages excessive caution about risks to liquidity

the commonly recognized institutional strengths of the Fund.

If it is deemed that greater efforts are warranted to increase the adaptivity of the Fund, such efforts should work "with the grain" of the traditional IMF strengths — emphasizing those aspects of each strength that can facilitate change, while being aware of the aspects that can inhibit it.

B. Adaptivity as an Issue: Perspectives of Fund People

Dozens of people currently or formerly employed by the IMF have generously provided comments on various drafts of this paper. Their views differed on the extent to which the institution needed to be concerned with its ability to adapt, although they all shared a strong sense of pride in what the Fund has been able to accomplish over the years and its demonstrated success in responding to crises. Perhaps not surprisingly, those more distant from the day-to-day responsibilities for the institution tended to put greater emphasis on the value of fresh perspectives. While wary of complacency, most were confident about the Fund's adaptive capacity.

Many suggested that a fair assessment of the need for adaptation in the Fund should include a comparison with the World Bank. The Bank is the international institution having most in common with the IMF and the one with which Fund staff are most familiar. It was suggested that there might be lessons from the Bank's perceived mixed success with its successive efforts at adaptation and innovation. There is a widespread impression that, the Fund, despite the absence of any orchestrated sense of a "need to change," has been more successful than the Bank in making appropriate adjustments.

Huw Evans, from the perspective of an Executive Director of both institutions, and who sees considerable strengths in each, has suggested that the Fund has enjoyed the following advantages:

- strong leadership over a sustained period,
- strong hierarchy and vertical integration giving it the ability to shift rapidly when the leadership calls for a change,
- high trust of its membership deriving from the real sense of ownership that finance ministries and central banks feel for the Fund,
- consistent backing by the major industrial countries,
- a relatively productive forum for Ministerial oversight in the Interim Committee

A detailed comparison of the Fund and the Bank on the factors identified in this paper as promoting or inhibiting adaptation would be interesting, but is beyond the scope of this review. And in any case, even if the Fund were found to be the most adaptive of comparable institutions, there may still be a strong case for becoming yet more adaptive.

Finally, it is worth noting the widely-shared sensitivity to the issue of resources and workload[1] within the Fund. Many staff worried that more emphasis on adaptation would lead to greater work demands and further strain on what they see as thinly-stretched resources. Although, in principle, adaptation could result in greater selectivity and the dropping of current lines of business, the experience has been that new initiatives are usually added to existing activities. Indeed, it may be the workload issue that, as in other institutions facing increasingly-binding resource constraints, provides the strongest rationale for rethinking the ways in which the Fund does its business.

C. How Might the IMF Become More Adaptive?

The paper opened with the question: should the International Monetary Fund be making an even greater effort to adapt its objectives, priorities, rules, instruments, procedures and resources to take account of changes in the global economic environment and in the needs of its members? The author's conclusion, shared by a slight majority of those who have commented on this paper, is that the general answer to this question must be yes, global changes will require the IMF to continue to adapt, and at an even faster pace than it has to date.

Although the primary purpose of the paper was to explore the *factors* affecting adaptivity, rather than to determine the *ways* in which the Fund should adapt, the review has suggested some general directions for change that can reinforce those aspects of the traditional strengths that facilitate adaptation.

Respecting the *Fund's purposes, objectives, and priorities*, the six purposes set out in Article I remain valid.[2] However, several of the more specific objectives associated with the purposes could usefully be refined. In particular, this paper has suggested that, without needing to change the Articles, the following three concepts could be more explicitly recognized as forming important parts of the IMF's current raison d'être: (a) promoting market-based principles in the economies of its members in order to better integrate all countries into the world economy, (b) encouraging sustained fiscal discipline in all member countries, and (c) helping member countries retain the confidence of capital markets.

A modest adjustment may be warranted in the approach the Fund takes to the Articles' mandate "to promote exchange stability." The exchange-rate stabilization among major currencies is a "plurilateral problem" and that this implies that the Fund should either (a) seek to provide mechanisms within the IMF for restricted-membership deliberations, or (b) down play future expectations of any direct role in managing the relationship between the major currencies. It should retain its current role of ensuring that the major-

[1] Some typical comments: "We have about as much activism and innovation as my group can handle at the moment, thank you." "Staff are, believe me, expected to be extremely flexible with respect to their own time, efforts to safeguard vacation time notwithstanding." "The number of hours and intensity of work and the number of days in the field have increased sharply — to the point where the staff is probably running down its human capital."

[2] The purposes are listed in Annex 1.

currency countries are aware of the international community's views on exchange rate issues and supporting sound domestic and external policies of individual members.

Respecting the *trade-off between regulation and innovation*, it is important to recognize that rules and precedents are required in international institutions to increase the incentive for all members to honour their institutional commitments. However, in the IMF, as in most international institutions, the proliferation of rules has led to a highly bureaucratic operating style that may threaten its continued ability to adapt. The numerous rules that support the institutional commitment to equal treatment and consensus help achieve a high level of work-place congeniality and facilitate compromise on issues where a decision is absolutely necessary. However, they also tend to support the status quo and to postpone non-urgent decisions. To counterbalance these inherently conservative tendencies, a higher and more explicit premium should be placed on activism, innovation, and initiative.

Respecting the *role of management*, it should be recognized that, while member countries occasionally provide the initiative on issues, the consistent and vigorous initiator of change and adaptation in the Fund has been its management. If it is agreed that adaptability should be a priority in the Fund, the Managing Director should be encouraged to take an even more activist role in proposing new ways to adapt the institution to the future needs of the membership.

Finally, respecting *clarification of roles*, it is important not to place excessive emphasis on the objective of "purifying" the role of the Fund to distinguish it more clearly from the development banks and to eliminate overlap with these and other institutions. First, attempts to refine the Fund's role should look forward, not back. Although there are lessons to be learned from the Fund's history, it is not very useful to invoke a previously intended IMF role for guidance. Account must be taken of the power relationships, precedents, and traditions that have evolved to date. For example, it should be recognized that the Fund's current role includes a modest degree of redistribution and it is this — not some earlier "purely monetary" role — that must be considered the base case from which future change is contemplated. Second, the costs of overlap and duplication are easily exaggerated — just as the costs of trying completely to eliminate them can easily be underestimated. The managers of the respective agencies have a strong incentive to coordinate their agencies' activities to minimize obvious inefficiencies. "Overlap and duplication" is right next to "waste, fraud, and abuse" in the populist critique of organizational excess and agency leaders have every reason to avoid having this become a substantive issue.

These are very general propositions. A detailed determination of how the Fund should best adapt to the global changes is beyond the scope of this paper and, indeed, is the subject in ongoing review of the "role of the Fund." However, it is important that any such determination be informed by an understanding of the relevant factors that affect the adaptivity of international institutions in general, and the Fund in particular. It is hoped that this paper can add to that understanding.

ANNEX 1: THE GOVERNANCE STRUCTURE OF THE FUND

The IMF is a "multilateral institution" — a mechanism whereby many countries attempt to concert their activities, with or without a significant secretariat or service delivery organization. The IMF is also a "multilateral organization" because it does have such a support system. The key institutional elements of the IMF are summarized below.

The International Monetary Fund is a multilateral institution of 181 countries headquartered in Washington, DC, supported by a staff of 2,600, with an administrative budget of $450 million per year. Its purposes[1] and legal framework are set out in the Articles of Agreement. The IMF is governed by a Board of Governors consisting of one member (typically the Finance Minister or central bank governor) from each member country, which meets annually and has delegated most executive decision making to a 24-member Executive Board. Eight members are nominated or elected by single countries and the remainder are elected by 173 countries organized into 16 "constituencies." The Executive Board stands ready to meet "in continuous session," and is convened for three days in most weeks. An Interim Committee of 24 Ministers (from the same constituencies as the Executive Directors) meets twice a year to provide ministerial guidance. A Managing Director, appointed by vote of the Executive Directors for a 5-year term, chairs the Executive Board and is the executive head of the institution.

The Executive Board provides a forum for consulting with other members on policies that influence payments by the government and private residents of one country to those of another. The Fund provides financial assistance to members having balance of payments difficulties, on condition that they undertake economic policy measures to eliminate these difficulties. Executive Board decisions are usually taken by consensus (i.e., in

[1] "The purposes of the International Monetary Fund are:

- To promote international monetary cooperation through a permanent institution that provides the machinery for consultation and collaboration on international monetary problems.
- To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.
- To promote enhanced stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.
- To assist in the establishment of a multilateral system of payments of current transactions between members and in the elimination of foreign exchange restrictions that hamper the growth of world trade.
- To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with the opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.
- In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

The Fund shall be guided in all its policies and decisions by the purposes set forth in this Article."

the absence of a formal objection) but if a vote is required, the vote of each Executive Director (which cannot be split to reflect different views of constituency members) is weighted primarily by the sum of the quotas of the countries (or country) that elected (or appointed) him. A country's quota is intended to be a rough measure of its global economic importance and is also the basis for each country's capital contribution and its access to Fund resources. Total subscribed quotas are about $225 billion with total credit outstanding to members of about $50 billion. The Fund provides economic advice to all member countries (usually as part of the annual surveillance, or review, discussed in the Executive Board) and technical assistance to countries with a need. It conducts studies on a wide variety of economic issues and each year publishes two reports on the world economic outlook, a report on international capital markets, and several hundred other papers, articles, and other reports.[1]

Table 7: Managing Directors of the Fund

Camille Gutt (Belgium)	May 6, 1946 to May 5, 1951
Ivar Rooth (Sweden)	Aug. 6, 1951 to Oct. 3, 1956
Per Jacobsson (Sweden)	Nov. 21, 1956 to May 5, 1963
Pierre-Paul Schweitzer (France)	Sept. 1, 1963 to Aug 31, 1973
H. Johannes Witteveen (Netherlands)	Sept. 1, 1973 to June 16, 1978
Jacques de Larosière (France)	June 16, 1978 to Jan. 15, 1987
Michel Camdessus (France)	Jan. 16, 1987

There are two features of the IMF that arguably serve to make it unique among international institutions. The first is the nature of the tasks that it has been assigned by its members. The IMF's responsibilities in macroeconomic policy and the financing of members touch the core of national governance in a way that the work of no other international institutions do. The second is the magnitude of the Fund's resources. The IMF has more immediately-available financial resources than any other international body. Unlike most other institutions, which have to seek membership contributions on an annual basis or replenishment of lending resources (such as the World Bank in the case of IDA) every few years, the Fund has substantial multi-year liquidity. This resource availability helps to ensure that all member countries retain a strong interest in the institution. The sense of the unique character and importance of the Fund's responsibilities and resources has helped shape the procedures and culture of the institution.

[1] In 1994, in addition to the *Annual Report*, the *Annual Report on Exchange Arrangements and Exchange Restrictions*, the semi-annual *World Economic Developments* and the *International Capital Markets*, there were eight *World Economic and Financial Surveys*, 13 *Occasional Papers*, 13 *Economic Reviews*, the quarterly *Staff Papers* journal, 159 *Working Papers*, six books, four seminar volumes, 23 issues of *IMF Survey*, four issues of *Finance and Development*, and 90 press releases. Since November 1994, most of the Recent Economic Developments sections of the Article IV reviews are being made available as *IMF Staff Country Reports*.

ANNEX 2: THEORETICAL MODELS AND PREVIOUS STUDIES

This annex reviews the main theoretical models in the international relations literature that have been applied to the study of international institutions and the major previous studies of the IMF. The review focuses on the observations in the literature that appear to be most relevant to the question of the adaptivity of the Fund.

"Realism" and other schools of international relations

Among international relations scholars, there has been a long-running debate between "realists" and "institutionalists,"[1] who hold that international institutions can have a significant effect on outcomes and on the behaviour of nation states.

John Mearsheimer, in a robust defence of the realist perspective, maintains that "institutions are basically a reflection of the distribution of power in the world ... based on the self-interested calculations of the great powers, and they have no independent effect on state behavior."[2] Realism expresses its strongest case in issues of international security, where the possibilities for collective action are thought to be less promising than in the economic and environmental spheres. Realists think that the possibilities for durable cooperation are poor, even in the economic arena, because states, driven by balance of power considerations, are presumed to be concerned not just with the collaboration problem of ensuring that other participants do not cheat, but also with the *relative* gains that competing states could realize as a result of success in institutional cooperation. National economic capacity is viewed as a component of power. In this view, states enter into institutional relationships primarily with a view to "maintain their share of world power, or even to increase it" so that institutions are "essentially arenas for acting out power relationships."[3]

The realist perspective would predict a high degree of rigidity in existing international institutions since nations are assumed to believe that improvements would either (a) have a good chance of providing greater relative benefits to others, or (b) have little purpose since "institutions have minimal influence on state behavior."

In his critique of the institutionalist approach, Mearsheimer distinguishes between "liberal institutionalism" (which tends to deal with areas of cooperation where states' in-

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[1] A variety of other schools have been identified, but tend to be "institutionalist" in their orientation. Robert Keohane (1988) distinguishes between "rationalistic" and "reflective" approaches. John Mearsheimer contrasts realist theory with a body of work that he calls "critical theory," which includes literature variously described as "constructivism," "reflectivism," "post-modernism," and "post structuralism." (Mearsheimer, 1995)

[2] Mearsheimer (1995), page 7

[3] Mearsheimer (1995), page 13

terests are "mixed" — with incentives both to cooperate and not to cooperate — rather than fundamentally opposed), and "critical theory" whose proponents "aim to transform the international system into a "world society," where states are guided by "norms of trust and sharing [and] they believe that discourse, or how we think and talk about the world, largely shapes practice." This latter perspective had also characterized the post-war "functionalist" school whose adherents believed that a key role of international institutions such as the IMF was to break down state-centred perspectives by strengthening links between functional communities (such as monetary specialists) and encourage decision making on the basis of objective expertise rather than national ("political") interests. Lord Keynes' characterization of the ideal Executive Boards for the Bretton Woods institutions would place him squarely in the functionalist camp:

> "Some of us...had been hoping that the officials of the two bodies would, in the course of time, come to regard themselves as primarily international officials, taking a world objective outlook, and only where necessary grinding their own national axes. So one would have wished to minimize rather than maximize, their national representative character and their position as delegates from outside authorities."[1]

Most institutionalists (and presumably all realists) have concluded that the functionalist and related perspectives were naïve. Because the realists tend to dismiss the importance of institutions, it is not surprising that the most work on issues directly related to the IMF have come from the institutionalist school, and more specifically, those applying to precepts of "liberal institutionalism" to the cooperation problem.

Hegemonic power in international institutions

As noted in the discussion of multilateral and plurilateral problems in Section I.C, cooperation generally becomes more difficult with larger numbers of players. Miles Kahler notes:

> "For political reasons (such as enhancing political stability through intensified economic exchange or concern over free riding on the benefits of bargains that are effectively public goods), large-number institutions have become more attractive. The widening of membership, however, typically decreases the efficiency of decision making, because it necessarily increases the diversity of national systems and the heterogeneity of interests represented."[2]

The theory of collective action[3] suggests that it is easier to maintain a multilateral regime if there is a clearly dominant (hegemonic) player with a continuing interest in mak-

[1] Cited in Hexner (1964)

[2] Kahler (1995), page 126

[3] Olson (1965)

ing the institution work. It would be in the this player's interest to take the lead on establishing the rules, financing the operations, and exercising control over costs. The proliferation of multilateral institutions in the period following World War II is widely attributed to the hegemonic position of the United States.

In the early years of the IMF, the U.S. was the only creditor. According to Frank Southard:

> "In the 1950s the U.S. voice in the Fund was decisive — indeed a task of the U.S. Executive Director was to keep that voice muted so as not to frustrate the Board and the Management/staff activity. The practical question in those years, in any prospective large use of Fund resources, was whether the United States would agree — and the answer was usually obtained by direct enquiry."[1]

In other words, potential recipients of Fund resources would have their requests cleared with the U.S. Treasury before going to the Board. According to Kahler, in the first two decades of the Fund, the U.S. was a major initiator of policy change and "it never lost an open policy conflict."[2]

It has also been suggested that the political economic philosophy implicit in the constitutions of the institutions created in a period of U.S. hegemony reflect an American tradition of "promot[ing] economic and political liberalism domestically and internationally" where the "goal of economic activity is maximization of *global* welfare, best achieved when there is separation between politics and economics and an open trading system."[3]

The decline in the U.S. share of global economy (from between half and one third of world GDP in 1945 to between one quarter and one fifth today) provides a recurring theme in the international relations literature. Some commentators (and members of Congress) have called for a complete re-evaluation of the American interest in international institutions. But other scholars question whether the loss of hegemony has been as extensive as commonly believed. A decade ago, Bruce Russet[4] argued that "cultural hegemony provides long-term influence that persists ... It is among the primary reasons why a decline in dominance over material power has not been reflected in an equivalent loss of control over outcomes." The effect of the continuing American universities' dominance of the economics profession noted in Section II.A, would support this hypothesis. Kahler and others[5] have argued that decline in American influence has been less in institutions with

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[1] Southard (1979), pages 19, 20

[2] Kahler (1990)

[3] Karns and Mingst (1990), pages 13, 14

[4] Russet (1985)

[5] See Kahler (1990) and Ferguson (1988)

weighted voting and special majorities. He uses as an example, the effective U.S. veto on those Fund issues — such as some of the changes in the terms of using Fund resources — requiring an 85 percent majority. Kahler also notes that the "central position of the United States in the international monetary and financial system" makes it easier to resist bilateral and multilateral pressures from other countries.

Groups and international institutions

Several authors have written about the role of groups in international institutions.[1] "Group identity" (supporting countries with like characteristics) may be a factor in the voting behaviour even when there is no discernible effect on the material interests of the country.[2] And, as the discussion of plurilateral problems noted, there is a continuing tendency for major countries to create smaller groups to deal with economic issues. Perhaps the first manifestation of this after Bretton Woods was the creation of a separate organization (which evolved into the OECD) to deliver the Marshall Plan support for the reconstruction of Europe. The G-10 and the OECD Working Party 3 forums were created in the late 1960s and the G-5 Finance Ministers (which evolved into the G-7) were instituted in the mid-1970s. As well, the European Union has increasingly handled functions for its member governments that were once provided exclusively by the IMF.

The influence of groups on the Fund's policy-making process has been succinctly described by Leo Van Houtven.[3] Writing in 1982, he concluded that the formation of the G-10 and the G-24 "have had a profound impact on policy making in the Fund." He notes that although the G-10 "came into being as a result of the Fund's initiative in the early 1960s to supplement its liquidity by borrowing from members in strong external positions," the G-10 "aroused particular concern in the following decade by attempting through its activities to shift decision-making responsibility, particularly in the areas of international liquidity and exchange rates, away from the Fund and its Executive Board." This was vigorously opposed by the Managing Director[4] and developing countries.

The issue of which body should create SDRs was resolved through a series of four meetings in 1967 and 1968 between the Deputies of the G-10 and the Executive Board of the Fund. In 1971, the Group of Seventy-Seven (which had been set up at the first meeting of the United Nations Conference on Trade and Development in 1964) established the Group of Twenty-Four on International Monetary Affairs (G-24) to ensure systematic consideration of the interests of the developing countries by the Committee of Twenty,

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[1] See, for example, Kafka (1994) and the book-length study focused on the IMF by Tyrone Ferguson (1988).

[2] Caparaso (1993)

[3] Van Houtven (1983)

[4] Southard (1979, page 45) says "the U.S. and French proposal that the General Arrangements to Borrow be organized outside the Fund had to be beaten down by [Managing Director] Jacobsson in angry sessions."

and when this Committee concluded its work in 1974, by the Interim Committee. Leo Van Houtven notes that the G-24's *Outline for a Program of Action for International Monetary Reform,* submitted to the Interim Committee and the Board of Governors in 1979 had, by 1982, "to a considerable extent become part of the work program of the Fund."

It has been argued that groups such as the G-24 can provide a "counter-hegemonic force" which can result from "a combination of (a) an increase in the material resources available to the subordinate group and (b) a coherent and persistent articulation of the subordinate group's demands that challenges the legitimacy of the prevailing consensus."[1]

It is important to note the difference in the nature of the G-7 and G-10 on the one hand, and the G-24 on the other. The G-7 and G-10 are plurilateral institutions created to work on certain issues outside a multilateral institution; the G-24 is a group to focus the interests of its member countries *within* a multilateral institution.[2] This is the nature of plurilateral problems in the IMF's subject area — it will almost always be the bigger industrial countries that see an interest in working in plurilateral forums outside the Fund. The smaller and developing countries usually perceive their interests to be best served by having as many issues as possible handled within the institutional structure of a multilateral institution.

The tendency to form groupings of the industrial and developing countries thus constitute a two-edged sword for a multilateral institution. On the one hand, the formation of a group can facilitate the articulation of points of view and increase the effectiveness of decision making by increasing the assurance by all parties that a perspective has been fully aired. On the other hand, if a group formed to articulate a point of view forms an "identity," it can polarize decision making and make it more difficult to resolve issues. Where countries in one of the groups have the means to secure most of their objectives through agreements among themselves outside the institution, this potential for "hiving off" activities constitutes a threat to the relevance of the institution.[3]

In summary, the opportunity to "plurilateralize" decision making (a) increases the need for multilateral institutions to adapt in order to stay relevant and (b) makes the adjustment process more difficult because countries have the option of working in smaller groups rather than expending the energy necessary to achieve change in the larger group. Maintaining the effectiveness of multilateral institutions requires continual effort. As Ro-

[1] Ferguson (1988), page 14, citing Cox and Jacobson (1981)

[2] The institutions created primarily to work outside the Fund can, of course, also provide a forum for the concertation of views to be taken inside the Fund.

[3] Frank Southard, the former U.S. Executive Director and later Deputy Managing Director, ends his essay on the evolution of the Fund with a warning: "It was not easy to create the IMF and it has not been easy to develop it into a world monetary authority. It *would* be easy for the leading members to reduce it to ineffectiveness or to an institution concerned chiefly with meeting the financial needs of the less-developed countries." (Southard, 1979)

bert Keohane has observed: “It is the combination of the potential *value* of agreements and the *difficulty* of making them that renders international regimes significant.”[1]

Public choice analysis

The basic premise of public choice theory is that outcomes can be explained without recourse to concepts such as the “public interest” or the “national interest” by looking at welfare-maximizing positions taken by the individuals involved in the process. Each actor is assumed to attempt to maximize his or her economic welfare — including such interests as power, prestige, perquisites, and popularity (the latter being especially important for elected representatives and particularly at crucial points in the electoral cycle). Decisions will favour outcomes in which the interests of one or more of the actors can be advanced at little or no perceived cost to the others.

Public servants tend to be skeptical (even indignant) when presented with analyses that leave no place for the motivational role of “advancing the public interest” and little regard for the requirements of having to advance it in the real world. Nevertheless — and although many of the assumptions and conclusions are open to rebuttal — it is useful to understand the approach and to recognize the impact that narrower institutional interests would likely have on the ability of international institutions to adapt.

The most extensive public choice analysis of the IMF is that of Roland Vaubel,[2] who asserts that “the public choice approach is most powerful as a critical tool where political decisions are far removed from the attention and control of voters [and] international economic policy is such a field.” Vaubel states that “economic policy makers always claim to be guided by the public interest” and although they “adduce normative economic theories to justify their actions ... many of the arguments are false or inapplicable” and that the advancement of the actors’ narrow interests provides “an alternative and superior explanation.”

His analysis involves five groups of actors:

- *politicians* of the national member governments, who “are interested in the IMF to the extent that it pays them subsidies, increases their foreign policy influence and/or helps them to be reelected”

- *national civil servants*, whose interests include “establishing and maintaining many international organizations that enhance their career opportunities and the scope for foreign travel. But they dislike a transfer of important or prestigious powers to such organizations”

[1] Keohane (1988), page 386

[2] Vaubel (1991)

- members of the *Executive Board*, whose interests lie in "avoid[ing] conflict between the IMF and their government" and in "more powers and resources for "their" organizations"

- *international civil servants*, who are interested in "power, prestige, income, all sorts of nonpecuniary benefits, and as a prerequisite, the survival of the institution"

- *interest groups*, such as the banking and export industries, who are "engaged in rent seeking" and "try to influence IMF policies by lobbying their national minister of finance and selected members of parliament."

Vaubel uses the interests of these actors to explain the differences between a number of IMF decisions and the outcome that he asserts would be most economically efficient.

For example, he claims that "the IMF staff has always been keen to increase its lending potential," which explains the persistence of the interest subsidies (relative to market) in its loans and its uniform interest rates (despite differences in country risks) because these reduce conflict with potential borrowers. He also suggests that the staff's interest was biased against speedy adjustment to the oil price shock because "by slowing down the adjustment, the IMF could increase the size and duration of its lending and extend the period of policy supervision." He sees a similar attempt to "increase the demand for its own services" in the creation of the interest-subsidized Structural Adjustment Facility, which "induced the eligible least developed countries to shift their demand from stand-by and extended credits to SAF credits and helped the IMF to increase its total lending."

It is asserted that the debt crisis of the early 1980s "was a particularly welcome opportunity ... because it was primarily a threat to U.S. banks and a problem for the U.S. Government, which at that time was the IMF's main adversary." By the end of the process, "the Reagan administration came to regard the IMF as a convenient conduit for U.S. influence." Vaubel believes that "the IMF has served as a smoke screen for subsidies to major U.S. banks" and sees the IMF role in the debt crisis as supporting his contention that "the tasks national governments delegate to international organizations tend to be unpleasant activities ("dirty work") that the national politicians consider necessary to gain or maintain the support of some interest groups but for which they do not want to take direct responsibility." He asserts that "very probably, the IMF has also been used to subsidize favorite debtor countries and the interest groups on whom they rely."

He notes that since 1960 the IMF staff grew faster than that of the U.S. Federal Reserve Board and that the difference in average salary cost per staff member was significantly higher. He compares this to the trend in the volume of lending (although not taking account of the growth in the number of countries, which entail resource costs regardless of lending activity) to assert that the growth is faster than can be explained by the growth in the demand for its credits. He notes that this is correlated with the decline in voting share by the ten countries with largest votes from 76 percent in 1958 to 58 percent in

1985 and that this supports the Mancur Olson's hypothesis[1] that collective action, in this case the control of international bureaucracy, becomes less likely as the stake of the largest members of the group declines.

Vaubel argues that in addition to more lending, the staff has an interest in conditionality because "the power to stipulate policy conditions increases its influence and prestige." Furthermore, the staff is not interested in strict conditionality rules because these would "diminish the staff's room for discretion, which is the basis of their power vis-à-vis individual applicants." As well, "the major creditor governments share the IMF's distaste for rules because rules would reduce their ability to use the Fund for their own foreign policy purposes." He asserts that the confidentiality of policy conditions is in the interest of both the staff (to avoid being publicly monitored) and the debtor governments because "secrecy enables them to use the Fund as a scapegoat for any policy change, even one that the IMF has not demanded." He also suggests a public choice explanation for the large number of policy conditions: "a multiplicity of conditions without weights attached to them makes it difficult to evaluate the efficiency of the program, it raises the cost of monitoring for external observers, and it permits the IMF to attribute the low degree of implementation to conflicts among targets. Once more, the customary borrowers and the most influential lender(s) share the staff interest."

Vaubel does not provide an analysis of the IMF surveillance and coordination function because "too little is known about it (which may indicate that it is ineffective)." However, he does assert that "analysis of IMF forecasts has revealed an optimistic bias, with respect to output growth, and for the industrial countries, also with respect to inflation; this bias is in the interest of member governments." He concludes his article with the following lines: "It has not been the purpose of this study to deny that many dedicated civil servants are at work in the International Monetary Fund, but they are exposed to a perverse bureaucratic incentive. Because there is little else on which four IMF economists from five countries can agree, this incentive is where their interests meet."

Although Vaubel's piece antedated the Mexican peso crisis of 1994-95, public choice analysts would emphasize the Fund's institutional interest in playing a major role. Zanny Minton-Beddoes, writing in *Foreign Affairs* (and not taking account of the Fund's exceptional circumstances provisions), concludes:

> "Camdessus saw a chance to reestablish the organization's relevance, and the IMF pitched in $17.8 billion to the second rescue plan: a pledge far higher than the rules would permit ... Camdessus' quest for relevance in the Mexican crisis wholly undermined the supposedly rule-based nature of the IMF, and it has been widely interpreted as an example of the IMF's increasing politicization ... Nonetheless, Mexico is

[1] Olson (1965)

> probably less an example of direct political pressure than of managerial opportunism."[1]

Public choice theory has been used by Michele Fratianni and John Pattison[2] to look at the "market for information" and to try to address the question of why there is not more economic policy coordination among the major countries. One reason advanced is the different weights attached by countries to particular targets, with Germany and Japan giving more weight to inflation and current account balances than the U.S. Another is that authorities have different views about the ways that the world economy works. A third is that the inter-country linkages (and the benefits of coordinated action) are lower than many believe. They assert that international economic organizations, in their theoretical models that show the superiority of coordinated solutions over atomistic solutions, "have failed to realize that the assumptions underlying the superiority of coordinated strategies are so numerous and demanding as to make remote the applicability of coordinated economic strategies." They conclude that "the maximum amount of cooperation, which national governments find desirable, is achieved today through regular exchange of information in an uncoercive environment where wide disclosure is made of alternatives and policy conflicts. With this information, governments can reveal their preferences for further cooperative steps where they are seen to be in their individual best interests."

Interestingly, Fratianni and Pattison believe that public choice theory argues against openness in the Article IV process: "by not publishing either forecasts or policy commentaries — which may be of little value to the public in any event — international organizations would encourage an even greater and more frank exchange of information among governments in their private meetings." They comparing the situation with the recent moves in investment management and stock brokerage firms where the investment managers are encouraged to buy research from the other houses in addition to their own because of conflicts of interest if the organizations are integrated in a single investment house. Fratianni and Pattison see in international organizations "similar conflicts between the interests of the secretariat, the interests of their owner-customers, and the interests of the public who consume the research."

To summarize, the basic premise public choice theory suggests that international institutions will tend to be unadaptable because those involved in a decision-making system have privileged positions and will resist change where there is a significant chance that it might threaten their individual roles. On the other hand, if highly placed actors are confident enough that a particular change would enhance their positions, the theory would suggest that they would be strong supporters of the change. This would suggest that organizations with the most hierarchical and disciplined structures (like the Fund) would be the most amenable to change (at least to changes that would enhance the institution overall and, by implication, the position of those who lead it).

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[1] Minton-Beddoes (1995)

[2] Fratianni and Pattison (1991)

The Cox-Jacobson-Strange framework

Almost twenty-five years ago, Robert Cox and Harold Jacobson[1] developed a framework for a comparative study of eight international institutions. Both the general framework and its detailed application to the IMF by Susan Strange[2] remain useful. It classifies *decisions* as: representational (e.g., who can be a member and what is their quota), symbolic (of more importance at the United Nations than the IMF), boundary (e.g., relations with the World Bank and the World Trade Organization), programmatic (e.g., creation of the Systemic Transformation Facility), rule-creating (e.g., the reporting requirements for the surveillance), rule-supervisory (e.g., enforcing the obligations of countries to provide timely data) and operational (e.g., annual surveillance reports, provision of financial assistance to members).

The framework distinguishes between types of *influencers* (initiators, vetoers, controllers, and brokers) and between modes of *interaction*: analytical (particularly important in international courts of law but also in the IMF Executive Board where most members are experienced economists) and bargaining (important in the IMF, even if the mechanisms are subtle). They list the determinants of the power of the actors: *position* (weight of the country represented or the position in the organizational hierarchy) plus *personal attributes* (charisma, ideological legitimacy, administrative competence, expert knowledge, long association with the organization, negotiating ability, and ability to persist in intransigence). These remain relevant to the IMF of the 1990s.

Strange noted that the IMF was unique among the organizations studied, being the richest of the institutions (with its own capital base, it avoids the need to seek an annual contribution from shareholders, relying on an increase in quota subscriptions every 5 or 10 years) and having weighted voting tied to relatively objective measures of economic size. This gave it the ability to resist the entreaties of other institutions. She noted that, of the eight institutions studied, the IMF was the "most stand-offish and jealous of its prerogatives."

Like most international organizations, the IMF had an "establishment," defined as "a grouping of representatives of states and international officials, who have long association with the agency and who have developed a certain identification with it, whose function is to reconcile views among the various divergent elements and to aggregate policy at the higher levels of the organization itself. They provide orderly ways of doing business ... but can have a stultifying effect on organizations." The current IMF establishment (management, most of the people who report directly to management and some of the more experienced Executive Directors) continues to be effective in aggregating policy to the highest levels of the organization. Indeed, as noted in Section IV.C, one of the IMF's most characteristic features today is its organizational discipline.

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[1] Cox and Jacobson (1973)

[2] Strange (1973)

This disciplined, crisis-management orientation has helped the Managing Director maintain (and probably enhance) his authority in the IMF in the face of the continuing trend observed in the 1970s toward bureaucratization of international institutions. Although in most organizations, bureacratization can reduce the influence of the leadership in favour of "routinization," the Managing Directors of the IMF have been very successful in using what Cox and Jacobson call their "strategic location in the communications networks of their organizations" and the "platforms" that their positions afford to make their views known. Other parts of management's task (which remain applicable today) were identified: to "maintain effective working relations with at least some of the member states ... to maintain effective working relations with the voting majority in the organization's conference machinery ... to ensure that elements within the staff do not work against his policies ... and to be a bridge between the staff and the members so as not to be identified exclusively with one or the other, balancing the "inside" and "outside" aspects and to take care of whichever aspect is the more important at a particular moment."

In sum, the fact that the IMF has been more successful than most international institutions in maintaining organizational discipline and a crucial role for management suggests that both its hierarchical nature and the preeminent role of its executive head can facilitate institutional adaptivity.

The Haas models of change in international organizations

Ernst Haas[1] studied the ways in which international institutions adapt and learn. He suggests there are three stylized paths for change in international institutions:

1. adaptation through incremental growth (the situation for many international organizations where tasks and resources increase gradually each year)

2. adaptation through turbulent non-growth (when, for example, a major contributor or group of countries withdraws from the organization)

3. learning to manage interdependence (where institutional adaptation is the result of institutional learning and strategic planning)

Haas suggests that organizations should strive for the third path. He found that, of the organizations he studied, the IMF was in the minority that had been able to achieve this in its response to the demise of the par value exchange rate system. He gives credit to the membership, and especially the Managing Director of the day, for enabling the IMF to take a lead role in the successful management of the debt crisis of the early 1980s.

He notes that the executive head has three main jobs in facilitating successful change: helping to define the problem, mediating in negotiations to get the inner circle states to agree on this definition, and arranging the necessary coordination to achieve implementation.

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[1] Haas (1987)

Table 8: The Effect of Goals and the State of the Knowledge Base on Decision-Making Style (from Haas)

Knowledge base is:	Political goals are: *specific-static*	Political goals are: *interconnected-expanding*
not becoming more consensual	**A** - decision making is eclectic - issue linked tactically	**B** - decision-making is skeptical - issues linked in fragmented fashion
becoming more consensual	**D** - decision making style is pragmatic - issues linked in fragmented fashion	**C** - decision making style is analytic - issues are linked substantively

He suggests that a critical determinant of the decision-making mode will be the nature of the knowledge base. If members do not share the same knowledge base, the decisions will be "eclectic" (drawing their rationale from different understandings of the implications of the decisions) in the case of static political goals and "skeptical" (where members recognize that decisions are related, but not necessarily agreeing on how). If the knowledge base is becoming more consensual, then one could expect decision making to be "pragmatic" if political goals are specific and static but "analytic" if — and this is unusual on the international scene these days — the political goals of countries were interconnected and expanding (for example, to provide for freer trade and more stable exchange rates). Similar distinctions are made with respect to the linkages made by countries in the negotiating process. His matrix is shown as Table 8.

Haas describes quadrant C as the ideal that founders of international organizations often have in mind[1] and he implies that for some issues and, particularly during the management of the debt crisis of the early 1980s, decision making at the IMF has been highly analytical with issues in bargaining linked substantively. In the 1990s, it is fair to say that there is a growing consensus in economic theory, but, for many of the member countries, political goals in international monetary affairs are neither expanding nor seen as closely interconnected. This would put the IMF in quadrant D for most issues. Haas characterizes quadrant D as one where "a more complicated situation prevails. The expert knowledge for more ambitious problem solving exists and is available to politicians, some of whom may even be persuaded by its relevance. Yet the definition of social objectives remains fragmented, though some politicians probably would wish to move in the direction of more conceptual complexity. Bargaining under such conditions will show the fragmented-linkage pattern ... agreements are subjected to the pressure to adapt in line with knowledge, but the unstable consensus on goals is likely to make the adaptations short-lived."

[1] Realists of course, would argue the implausibility of a decision-making nirvana where countries share a knowledge base and have international political goals that are interconnected and expanding.

Haas concludes his study with a set of maxims that he believes should improve the ability of an international organization to successfully adapt to the changing needs of the world.

Do not seek to rationalize[1] *organizations that suffer from turbulent nongrowth or net decline by fundamental constitutional revision.* Haas believes that complete innovation in organizational design may be superior to adaptive tinkering in some institutional contexts, but that "it is impossible to follow this advice in international organizations" because it would condemn governments to "perpetual bargaining over optimal patterns of cooperation." This point is persuasive because, as noted in Section III, international institutions have a fundamentally different decision-making system from private corporations and national governments in that there is no ultimate arbiter on issues of organizational structure. Proposals for radical reform (such as combining the IMF and the World Bank), even if they could be justified on a *tabula rasa* basis, would be next to impossible to achieve in reality. In any case, the IMF has followed the spirit of the maxim by making as many as possible of its changes within its constitutional structure.

Respect the differences between [the short term, medium term, and long term[2]*] and remember that an organization able to keep on learning makes programs that use all three simultaneously*. Although Haas suggests that, at least from his observations in the 1980s, the IMF operates mostly in the short term, the Fund has displayed an impressive ability to focus on issues with an impact into the medium term (2-5 years). It has created programs, such as the Enhanced Structural Adjustment Facility, with an explicitly medium-term focus. The Executive Board regularly looks at issues, such as trends in capital flows, future financial needs of the Fund, and the role of the SDR that have time horizons of five to fifteen years. The processes put in place to deal with them may seem leisurely — often explicitly using a multi-year study and consultation process — but they are clearly aimed at producing results in the medium term. That being said, like most decision-making bodies, the Executive Board devotes more concerted energy to items with the prospect for an immediate impact than those with a longer time horizon.

Minimize hierarchies and regulations. Haas argues that, while the hierarchical model for organizing interdependence and coordination may be appropriate in some settings, it is not the optimal model for an international organization because of the lack of task homogeneity (i.e., the need to deal with the great differences in political and economic conditions in member countries). He argues for replacing detailed regulations and programs, to the extent possible, with "feedback, interactive planning capacity, and conflict resolution through bargaining." The issue of centralization and uniformity is perhaps the area of greatest philosophical tension within the IMF. On the one hand, representatives of

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[1] The term rationalization in this context refers to changes in mission and organizational structure, without necessarily reducing resources. To the extent that such actions imply significant "resource rationalization" (i.e., reduction), the argument for achieving rationalization without having to resort to constitutional revision carries even more force.

[2] Haas uses the terms incremental, conjunctural, and secular time.

countries interested in using IMF resources (and many of the staff who have to make the country's case to management), feel strongly about the uniqueness of their situation and the need for greater variation (and bargaining flexibility). On the other hand, there is arguably a high degree of homogeneity across countries in some of the IMF's spheres of action (such as the nature of financial interventions and information provision needed to satisfy international capital markets) which could justify a hierarchical model in these instances. Furthermore, while most country representatives see the need for flexibility in specific instances, they also see the value of maintaining a "rules-based organization" — in which consistency is a principal philosophical tenet — and recognize that this is most easily achieved with hierarchical rule-setting and decision-making mechanisms.

Stress boundary-spanning roles. This maxim stands in interesting contrast to the frequent admonitions to "reduce overlap" and "clarify mandates." Haas emphasizes the need for international organizations to build special bureaucratic networks with other international organizations, with national governments, and with non-governmental organizations. This has been a priority of the IMF in recent years. A good deal of staff (and Executive Board) time has been devoted to refining the arrangements with the World Bank and the World Trade Organization. To the extent that capital flows are becoming more important in the work of the Fund, similar efforts will probably be required with the Bank for International Settlements.

In sum, the current IMF philosophy and operating style is broadly consistent with Haas' prescriptions for "learning to manage interdependence" except for his advice to minimize hierarchy and regulation.

This dilemma is analogous to the debate in economic literature on the merits of rules versus discretion.[1] This literature tends to support the proposition that optimal economic policy requires a mix. There should be some virtually inviolable rules (e.g., property rights), some relatively rigid rules (e.g., monetary policy commitment to low inflation), and some rules that are very flexible or non-existent (e.g., regarding what goods and services are produced, how they are produced and at what price they are sold). A similar logic probably applies to rule-making in the IMF.

Kahler's comparison of the IMF and GATT

In his recent Brookings study,[2] Miles Kahler reaches similar conclusions to Haas on the issue of the difficulty of hierarchical, rules-based institutions to adapt. His study compared the IMF with the GATT and other institutions in terms of their ability to adapt to rapid economic change. He concludes that "institutions based on substantive rules have proved to be fragile entities." He suggests that the degree of flexibility and openness that he found in the last decade of the GATT process (and in contrast to the centralized, rules-

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[1] See, for example, Barro (1986) and Rodrik and Zeckhauser (1988).

[2] Kahler (1995)

based operations of the IMF) can facilitate adaptation in institutions and keep them more relevant to the international community.

Kahler suggests that while political scientists, lawyers, and economists all bring their field's own assumptions and prejudices to the study of international institutions, they share a bias for centralization. He suggests that political scientists tend to embrace "naïve institutionalism, a belief that more institutionalization ... is likely to be the most efficacious means of confirming cooperative bargains." As for lawyers, many "share a predictable preference for rule-based institutions that have a strong means for adjudicating disputes." Economists "have approached international institutions bearing a belief in economic functionalism — that underlying economic processes will produce institutions of a particular kind ... and an implicit normative bias toward expanding global economic welfare and maximizing gains from economic integration while setting aside other political and social goals." Kahler believes that "these three disciplinary perspectives — political, legal, and economic — have too often pushed the investigation and evaluation of international institutions toward a "European" model of the future; intensified economic integration implies stronger, more formal institutions that become wider and wider in scope. Institutions become more effective as they become more "statelike.""

Consistent with his skepticism about centralizing institutions, Kahler is not concerned about a moderate degree of institutional overlap:

> "Overlapping functions among international institutions are usually taken as a costly and unnecessary lack of tidiness. A certain measure of competition among international institutions produces a more open structure, however, and may well produce more innovative solutions as new issues enter the international agenda."

The potential fragility of rules-based institutions is one of the themes to come out of the conferences on the fiftieth anniversary of Bretton Woods. For example, Barry Eichengreen and Peter Kenen conclude:

> "The strength of a formal arrangement such as the IMF is its rigidity; that of an informal, ideas-based institution such as the GATT is its adaptability. The greater success of the GATT thus illustrates the importance for post-war economic performance of an adaptable institutional framework."[1]

As footnoted in Section II.B, many commentators within the Fund are unconvinced by of the merits of this arguments. In any case, could reinterpret these critiques of the Fund using the distinction between multilateral and plurilateral problems noted in Section I.C. The IMF is a multilateral institution with universal membership and substantive rules. In addressing problems, the Fund has been innovative at finding solutions that are compatible with its multilateral character. However, its fundamental characteristics of uni-

[1] Eichengreen and Keenan (1994), page 7

versal membership and plenary decision making have prevented it from dealing effectively with issues where a plurilateral approach is markedly more effective than a multilateral one.

The organizational typologies of Wilson and Mintzberg

James Q. Wilson has suggested organizational distinctions on the basis of whether the activities of the operators can be observed and whether the results of the activity be observed.[1] Where both can be observed by managers (as in a postal service or revenue department), one has a "production organization." Where managers can observe what their subordinates are doing but not the results (as in mental hospitals or armed services during peacetime), one has a "procedural organization." Where activities are hard to observe but results are measurable (such as some activities of a justice department and many units of the armed forces during wartime), one has a "craft organization," and when neither are observable one has a "coping organization" (as in many educational institutions). In this typology, policy-making entities, including the IMF, would tend to be craft organizations — which rely heavily on "ethos [usually derived from an internalized set of professional norms] and sense of duty of its operators to control behavior" — although they share elements of the three other types as well.

The most well-articulated typology of organizations — applicable to both public and private sectors — is Henry Mintzberg's 1989 classification of seven organizational forms and forces:[2]

- *entrepreneurial organization*, often found in the early years of a small new agency, where there is little staff or middle-line hierarchy and much of the activity revolves around the chief executive who can coordinate most activities personally through direct supervision.

- *machine organization*, often used in the mass production of goods or services such as railways, police and armed forces, customs operations, revenue collection, and cheque disbursement. They work best in a simple, stable environment and rely on standardization of work procedures to achieve coordination.

- *diversified organization*, found in many government ministries with diverse lines of business (as opposed to diverse clients or regions). In a business conglomerate, coordination is achieved through the standardization of outputs, such as return on capital employed.

- *professional organization*, typically found in universities, hospitals and research institutes, where "the key to functioning is creation of a system of pigeonholes within which individual professionals work autonomously, subject to

[1] Wilson (1989)

[2] Mintzberg (1989)

the controls of the profession." Coordination is achieved primarily through the standardization of skills of its many operating professionals.

- *innovative organization*, (or "adhocracy") where functional experts are deployed in multidisciplinary teams of staff, operators, and managers to carry out innovative projects. Mintzberg suggests that this is the most well suited to deal with a highly complex and dynamic environment with frequent product change (such as high technology) and in temporary projects (such as making a film or organizing for the Olympic games). In the absence of standardized rules and procedures, coordination must be made by mutual accommodation of experts.

- *missionary organization*, which is driven by a sense of mission associated with a rich culture of shared values, beliefs, and traditions. This is thought to be a factor that distinguishes Japanese from North American corporations, and is associated with such administrative practices as lifetime employment, consensual decision making, collective responsibility, slow evaluation and promotion, informal control, and non-specialized career path.

- *political organization*, in which influence is less "legitimate" (in that it is not based on legally sanctioned power, widely accepted beliefs or technical expertise), is often used self-interestedly and usually results in conflict that pulls individuals or units apart. Mintzberg notes that this can arise when there is conflict between an influential outside group and a powerful insider such that factions are created within the institution in support of one or the other.

Mintzberg suggests that there are some entities that can reflect relatively pure organizational types but many organizations are hybrid combinations, in which case the forms can be seen as forces within the organization. The entrepreneurial form represents a force for *direction* from the top, the machine form a force for *efficiency*, the diversified form a force for *concentration*, the professional form a force for *proficiency*, the innovative form a force for *learning*, the missionary form a force for *cooperation*, and the political form a force for *competition*.

The IMF exhibits significant elements of five of the seven forms. In rough order of importance they are: innovative (given the unique nature of each country situation, negotiating each IMF program can be likened to the making of a film), machine (given the value placed on uniformity of treatment and the resulting standardization of work processes for conducting surveillance reviews and preparation of reports to the Board), entrepreneurial (given the need to respond quickly to major crises and the key role played by the Managing Director, and of direct supervision, in crisis situations), professional (given the importance of maintaining the highest quality of economic analytical skills and the need for staff to be credible with external professionals), and missionary (given the importance of the Fund ideology and staff's commitment to its internationalist mission).

The Fund might therefore be described as a hybrid with a rough balance of *innovative* and *machine* characteristics, but with strong *professional* and *missionary* overlays, capable of acting *entrepreneurially* on any issue deemed crucial by the Managing Director. The IMF cannot avoid being a hybrid combination and therefore necessarily lacks the organizational coherence that can be achieved by institutions that have a dominant orientation and can conform to a coherent set of practices associated with a single "configuration." Such organizations are easier to manage and to explain to employees and shareholders. For example, a machine organization can act like a smoothly functioning instrument and be proud of its efficiency even if it means a reduced capacity to innovate; a professional organization can be proud of the proficiency of its individual units even it means a reduced capacity to take binding decisions.

One of the common shortcomings of professional organizations is the tendency to undervalue (and underperform in) general management skills. This has been recognized in the IMF, particularly following surveys of the staff in 1978 and 1992, and an increased priority is being placed on management training and development. After pilot projects in two departments, the Managing Director announced in 1995 the Fund-wide implementation of a (mandatory) supervisory feedback exercise which, although "the detailed results from each perspective (boss, peer, subordinate) will not to be used as a direct input into the annual performance appraisal, supervisors at all levels will be expected to incorporate their development goals, identified as a result of the exercise, into the annual appraisal."

Mintzberg notes that many hybrid combinations prove to be "dysfunctional because they are arbitrary, or because they reflect a management that cannot make up its mind. In wanting the best of more than one world, it often ends up with the worst of several,"[1] leaving both employees and shareholders confused. The fact that successive IMF managements have, perhaps intuitively, recognized that the institution was necessarily a complex hybrid has made them wary of introducing administrative practices that have proven successful in institutions with a purer organizational form.

Indeed, the stability of the IMF's structure and management philosophy over time suggests that it more closely follows the "continental European" model described by Elliott Jaques and his colleagues,[2] than the "Anglo-American" model. According to Ronnie Lessem:[3]

> "Whereas the action-centred Anglo-American way is behaviorally lodged in the tradition of the great leader, the feeling-centred Japanese approach bypasses the individual entirely as the formative unit of account, focusing instead on the affective group ... [and, the European approach, as articulated by Jaques, concentrates] on the individual-in-role, in the process of maturation, via his or her potentially unfolding grasp of cognitive complexity ...The effective counterpart to the group-

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[1] Minzberg (1989)

[2] Jaques and Clement (1991)

[3] Lessem (1991)

> oriented Japanese is not the individual "enterprise culture" so feverishly espoused in the late 1980s by Ronald Reagan and Margaret Thatcher, but rather the development of requisite managerial leadership, whereby managerial cognitive complexity evolves to match ever-growing task complexity."

Each of the Managing Directors of the IMF has come from Europe. Perhaps this tradition, and the fact that all have been "continental Europeans," has been a factor in the evolution of the IMF's administrative practices. Successive generations of senior people at the Fund have certainly come to believe that these practices serve the institution well.

ANNEX 3: TRENDS IN COX AND JACOBSON'S "INDEX OF POWER"

Cox and Jacobson (1973) developed a scale of world power based on GNP, GNP per capita, population, nuclear capability, and influence in foreign policy. The relevance and the relative weighting of the factors is obviously open to debate and many other formulae could be envisaged. The IMF's quota formula has a different emphasis, mainly "weight in the world economy," although it contains an element of balance of payments vulnerability.[1]

Table 9: Country Rankings

Cox and Jacobson Index of Power			Current IMF Voting Power	
1950	1967	1993		%
United States	United States	United States	United States	17.83
USSR	USSR	Japan	Japan	5.55
United Kingdom	France	Germany	Germany	5.55
France	Japan	France	France	5.00
China	United Kingdom	United Kingdom	United Kingdom	5.00
India	China	Italy	Saudi Arabia	3.46
Canada	West Germany	China	Italy	3.10
West Germany	Italy	Russia	Canada	2.92
Japan	Canada	Canada	Russia	2.91
Australia	India	Spain	Netherlands	2.33
Brazil	Sweden	Brazil	China	2.29
Italy	Brazil	India	Belgium	2.10
Sweden	Spain	Mexico	India	2.07
Switzerland	Australia	Korea	Switzerland	1.68
Belgium	Netherlands	Netherlands	Australia	1.58
Spain	Austria	Australia	Brazil	1.47
Indonesia	Switzerland	Argentina	Venezuela	1.33
Argentina	Yugoslavia	Switzerland	Spain	1.32
Netherlands	Belgium	Taiwan PoC	Mexico	1.19
Mexico	Argentina	Belgium	Sweden	1.10
South Africa	Poland	Sweden	Argentina	1.06
Yugoslavia	South Africa	Austria	Indonesia	1.02

The Cox and Jacobson formula is more useful in providing ordinal rankings than cardinal values since the total scores exhibit relatively little dispersion. Table 9 shows the ordinal rankings for 1950 and 1967 from the 1973 Cox and Jacobson study (listing tied

[1] The formulas for calculated quota are based on members' GDP, official reserves, current account transactions, and variability of current receipts.

scores in order of GDP). Current Fund data on nominal GDP and population have been used to calculate the rankings for 1993. Nominal GDP and population are taken from the IMF data base. The intervals applied in 1967 were adjusted to provide roughly the same number of countries in each interval. For GDP, the scores are: 12 for greater than $5 trillion, 11 for $1.5-5 trillion, 10 for $.9-1.5 trillion, 9 for $600-900 billion, 8 for $350-600 billion, 7 for $250-350 billion, 6 for $170-250 billion, 5 for $90-170 billion. For population, the scores are: 5 for over 400 million, 4 for 150-400 million, 3 for 90-150 million, 2 for 25-90 million, 1 for 3-25 million. For GDP per capita, the scores are: 4 for over $10,000, 3 for $5,000-10,000, 2 for $1,500-5,000 and 1 for $200-1,500.[1]

With respect to nuclear capacity, Cox and Jacobson awarded a score of 3 for "second strike capacity," 2 for possessing nuclear weapons and 1 for the capacity to acquire them within a decade. For 1993, countries that have not claimed to be in possession of weapons are given a score of 1. The Cox and Jacobson foreign policy influence index requires adjustment with the end of the Cold War. The earlier rankings of 3 for the U.S. and Russia and 2 for China have been retained but all other countries have rather arbitrarily been assigned 1.

Table 9 also lists the present voting power in the Fund for all countries with more than 1 percent of the voting power.

[1] There is still a good deal of uncertainty about the size of the Russian GDP in 1993, but Fund staff believe a score associated with the range of $350,000-$600,000 billion is reasonable, along with a GDP per capita score associated with the range of $1,500-5,000.

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