Lacking Ownership: The IMF and its Engagement with Social Development as a Global Policy Norm

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<u>ABSTRACT</u>

This paper traces the evolution of social development policies as a global development policy norm (GDPN) in the IMF from the 1980s until today. Poverty reduction is now one of the priority objectives of the Fund which was not the case 25 years ago. This development is in line with the emerging fundamental norm on holistic development and led to a change in organizing principles in form of balancing economic and social policies in Fund programs. By tracing how this policy norm entered the organization the analysis reveals the main triggers and mechanisms of policy change: The IMF accommodated this particular policy norm which came from an external and then top-down process. Yet, once engaging with the norm the Fund significantly shaped the content of the policy norm to bring it more in line with its organizational mandate and beliefs. While the IMF has formally validated the social development policy norm it has not socially recognized it. By taking on social policies the Fund has however contributed to the policy norm's legitimization in the broader development community.

<u>Keywords:-</u>

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1. *Introduction*

By the end of the 1990s social, instead of narrowly defined economic, development had become a global development policy norm. The development norm complex of the 1980s was marked by a consensus that fostered development policies based on classical economic theory; yet the emphasis on economic policies began to crack over the course of the 1990s. In the early 1990s the United Nations (UN) was already promoting a human development approach based on Sen's idea that development is primarily about people not economics (Sen 2001). The World Bank followed these footsteps in the mid-1990s, setting up new policy initiatives such as the *Comprehensive Development Framework* or the *Strategic Compact* that significantly enhanced the social development agenda inside the organization and refocusing its objective towards poverty reduction. The IMF lagged behind these developments but joined the new spirit in 1999 by signing the Bank's *Poverty Reduction Strategy Paper* (PRSP) initiative. This was the first time in its history that the Fund officially endorsed poverty reduction as one of its priority objectives.[i] It also acknowledged the benefits of social policies for economic development. Yet, to what extent has the Fund internalized this new social development policy norm?[ii]

By tracing the evolution of the Fund's approach to social development policies from the late 1970s until today it becomes clear that the organization has not been at the forefront of promoting this policy norm and has always been reluctant to accommodate it into its operations. During the course of the 1980s the Fund struggled to acknowledge the social costs of its adjustment programs. In the 1990s it tried to address precisely these detrimental effects of adjustment lending in form of social safety nets and technical advice regarding social expenditure. At the turn of the century however, it subscribed to the overall shift in this organizing principle. Yet, internal debates have not stopped over whether or not social development aimed at poverty reduction should be on the Fund's agenda. All in all, the story is one of accommodating a policy norm which is clearly difficult to align with the organization's overall mandate and belief about how best to tackle development problems. The question therefore is rather *why* the Fund as an expert in economic issues became involved in social policies and aimed to reduce poverty?

Theoretical approaches on norms and IOs mainly stress IOs' power to regulate and constitute specific policy areas (Barnett and Finnemore 2004). IOs are seen as embodying certain norms and “teaching” them to nation states (e.g. Risse et al. 1999; Finnemore 1996, 1993). Yet, these approaches do not shed light on where norms come from in IOs. Do IOs merely adapt to their material and normative environment or are they actively creating and setting norms? Recent studies both inspired by Principal-Agent (P-A) models (e.g. Nielson, Tierney and Weaver 2006; Martin 2003; Nielson and Tierney 2003; Pollack 1997) and by organizational sociology (e.g. Park 2007; Weaver 2007; Barnett and Finnemore 2004, 1999; Babb 2003) inform us that IOs do not necessarily do what their principals want them to do, thus suggesting that IOs actively create norms on their own and set policy agendas. Most of these analyses study the World Bank which might be a special case of an organization with a high degree of autonomy. It remains to be seen whether this is the case for all IOs or whether there are differences among them.

By means of examining the evolution of the social dimension within the IMF I argue that in this particular example we deal with a case of norm adaptation. Three conditions of IO behaviour are derived: an organization that strongly depends on its Executive Board; a low degree of consistency of social policies with the Fund’s original mandate, procedures and ideology; and its staff’ professional background. In the policy case discussed here, the combination of these conditions led to a situation where a powerful external event, the Asian financial crisis, pushed the IMF into a policy area for which it is not appropriately equipped. Since the late 1980s management has tried to increase staff knowledge on poverty reduction, although such efforts have been discouraged by the Board. In addition, contrary to other policy areas such as capital account liberalization (Leiteritz and Moschella, in this volume), staff which consist of economists trained in conservative economic theory (Chwieroth 2007) were not interested in pursuing social issues and therefore did not lobby for it. Like the case of debt relief (Momani, in this volume) it was a Board decision to participate in the PRSP initiative with – given the previous resistance to social policy issues – two consequences: First, borrowing from its own language, the Fund lacks *ownership* when it comes to social policies, which in turn increases the likelihood of not taking this policy norm seriously enough. Secondly, the Fund lacks expertise in this area with the result that social issues will always be framed in economic terms, thus delimiting the social development policy norm.

The chapter proceeds as follows: after a brief explication of the study of norms and IOs the chapter traces the evolution of social development ideas in IMF policies based on a document analysis and interviews conducted with Fund staff. Through tracing this process the main triggers and specific mechanisms of policy norm formation become apparent. From the empirical analysis two conclusions can be drawn: first, the degree of autonomy, a decisive aspect of policy norm creation, varies across IOs and the Fund depicts a case of high dependency on its member states through its Board of Executive Directors. Otherwise the organization might have opted against the inclusion of poverty reduction and social issues into its policies. Secondly, while the policy norm has gained formal validity in form of the *Poverty and Growth Facility* (PRGF) the Fund and its staff have not internalized social issues since its original mandate and professional background is detrimental to social policies. As such staff have not socially recognized the social development policy norm. The chapter concludes by embedding this single global development policy norm within the broader normative context of development and relates it to the norm circle described in the introduction. The Fund has taken up the idea of poverty reduction as part and parcel of achieving economic growth, and thus, contributed to legitimizing social development as a global policy norm without internalizing it itself because of a lack of staff' social recognition.

2. The Creation of Policy Norms: How Do IOs 'Tick'?

For some time, norms in international relations have been dealt with from a structural point of view as "norms as doing things" (Seabrooke and Sending 2007) or, in other words, the independent variable. Norms *do* constrain and regulate behaviour and therefore contribute to stability, thus making the world more predictable. They also guide action by providing scripts that facilitate decision-making processes. Sociologists in particular provide numerous examples of the mechanisms of socialization and internalization through which actors learn certain norms in everyday life as such that they do not have to create everything from scratch in any given situation such as saying 'Good morning' when meeting a colleague before 12pm. While there are differences when translating these concepts to collective actors, the point here is that norms have been treated as generally accepted, sanctioned prescriptions. The role IOs play in this literature is as "norm diffusers or transmitters within the international realm" (Park 2006: 343). IOs teach states what to do and thus have a significant impact on domestic politics and policies. This perspective therefore privileges the structural aspect of norms at the expense of their relational impact. Norms are stabilizers yet at the same time are also flexible and constructed. Processes of norm contestation however have been neglected in this approach. As Finnemore and Sikkink (1998: 896) point out: “little theoretical work has focused on the process of ‘norm building’”.

Problematizing norm emergence and contestation shifts perspective to “norms as things to do” (Seabrooke and Sending 2007). Therefore, the norm as such becomes the *explanandum*. In the IO literature specifically, little attention has been paid to where norms come from. Park (2006) provides an excellent overview of studies that engage with the origin of norms in IOs. From a detailed discussion of various conducted case studies (UNESCO, World Bank, OSCE, NATO, the EU, the CoE) she observes that “[t]he most elaborate argument posited by Finnemore is that norms emerge within IOs and the international community, or that they may come from individuals[iii] before joining the IO.” (Park 2006: 358) This, however, is not a sufficient answer. There are more specific questions to be asked such as why do IOs champion certain norms but not others? Do IOs adapt to their normative environment or do they actively promote policy norms? Under what conditions do norms evolve in IOs? Park’s (ibid.) conclusion is that the identity of an IO and socialization processes of IOs by other collective actors in the international community (in particular NGOs and transnational advocacy networks (TANs)) offer insights into which policy norms IOs espouse and are therefore vantage points for exploring norm diffusion by IOs.

Park therefore makes two points: First, to consider the specific context in which norms emerge or change in IOs. Yet, the environment of IOs is much wider than NGOs or TANs. It might also include the situation in client countries for example where conflicts are possible while transmitting norms (see Gutner 2005), an aspect the norm literature in IR has neglected so far. As suggested in the introduction to this volume, the “life cycle” of a norm (Finnemore and Sikkink 1998) does not end with its internalization but once norms are established they are constantly contested (Wiener 2007). Second, social practices that constitute the meaning of norms are crucial which in the case of IOs refer to the internal life of an organization and thus to its structure, culture and identity. What Park argues for empirically is in line with Wiener’s (2006) ontological critique of constructivists’ use of norms in international relations theory. Wiener argues for appreciating the “dual quality [of norms], that is, they are both structuring and socially constructed through interaction in context” (2006: 5; see also Guzzini 2000). In other words, if we are interested in the emergence and transformation of norms in the IMF we have to assume a specific position on norms as being continuously contested, evolving through social practices that constitute their meaning and as being affected by the context in which they work (Barnett 1999).

How do we account for context and social practices in the analysis of norm emergence in IOs? Organizational theory conceptualizes organizations' behaviour as a balancing act between context and practice: After the foundation of an organization; the initial formal system of rules and goals, which sets out tasks, power and procedures; is given life and meaning by two organizational experiences. The first experience is its relationship with its outside world, i.e. its context. Such social settings of organizational activity go beyond public relations, and thus, self-maintenance. As soon as an organization is aware of its dependency on its material and normative environment it changes its perception of itself leading to changes in its policies, recruitment strategies and organizational structures. Secondly, an organization also has an internal social world which is made up of individuals that in their everyday operational life enact and transform the meaning of policy norms. The formal structure never really accounts for what staff are doing. There is an informal structure which develops through staff bringing their own interests and values to the organization that may not overlap with the organization's goals. Social relations that develop over time lead to the development of institutional values, internal interest conflicts and a fixed way of perceiving itself and the world. These developments have a unifying effect: group values are formed that determine the organization's objectives and norms, and eventually, its identity. The IO institutionalizes these responses over time into patterns through balancing and responding to organization-internal conditions and pressures from its environment.

These patterns then determine the way in which the organization 'ticks', i.e. whether it quickly picks up on ideas and pressure and translates them into policies; how it promotes new policy norms; what the main triggers are for policy norm change; and who is engaged in creating policy norms. In that sense its organizational characteristics mainly determine the way in which the organization is perceived by and handles its environment. An organization staffed with highly technical personnel might connect differently to its outside world than on-the-ground development practitioners. They might also react differently to policy problems (see Bartkowski 2006). At their foundation, organizations are set up and equipped with certain features which are subject to change over time since an organization is not a stable entity but is interpreted and shaped by its environment and staff. These features are its original mandate (1), an organizational structure with a set of rules, regulations and operational procedures, specific units and departments (2). In addition, informal regulations emerge in the daily interaction of staff (3). As research has shown, the professional background of staff themselves decisively shapes organizational practices (Bebbington et al. 2006; Momani 2005; Babb 2003; Kanbur 2001; Miller-Adams 1999). Finally, in the case of *international* organizations an important factor is the organization's autonomy from its principals (4). These four organizational characteristics determine how the organization acts and interacts. What assumptions can be drawn from the Fund's organizational characteristics regarding mechanisms and triggers for change and how do these inform its engagement with social development as a global policy norm?

(1) Compared with other IOs the Fund has a clearly defined mandate: responding to balance of payments problems and providing macroeconomic stability in order to achieve economic growth.[iv] This is a precise objective and leaves less leverage for redefinition as opposed to the World Bank's mandate for 'development'[v], which is a vague or at best broad objective that can, and has been, interpreted in many ways. What is important regarding the policy norm of social development is that the Fund's mandate is purely economic. It might therefore be difficult for the organization to accommodate social policies into its technocratic economic modelling.

(2) The Fund is a relatively small and centralized organization with clearly established hierarchies among different units as well as staff. This leads to a high level of control within the organization; it is structured and efficient, focusing on delivery. It also leads to a working atmosphere of trust and security: because staff actions, their careers and promotion, depend on formal procedures and hierarchy they are loyal and collegial. Additionally, staff are likely to be conformist preferring status quo situations since other behaviour will not be rewarded. We would therefore expect, in general, high levels of compliance with management and Board decisions and less lobbying behaviour or initiatives by staff.

(3) Staff is homogenous and made up of macroeconomists and financial experts. This can have two consequences: first, there might be less discussion or questioning of certain policies, in particular when it comes to social development. This is not to say that all Fund economists agree on how to achieve its goals (see Moschella 2008). However, having sociologists, civil engineers or anthropologists work together on a project the likelihood of a debate is much higher and therefore bottom-up changes initiated by staff are more likely.

Secondly, studies have shown the impact of staff's professional background on organizational action (Bartkowski 2006; Barnett and Finnemore 2004). Economists recruited from conservative economics departments (Chwieroth 2007) are more inclined to so-called neoliberal economic ideas that theorize poverty reduction as an automatic outcome of economic growth (Momani 2005; Barnett and Finnemore 2004).

(4) Financially, the Fund fully depends on its member states. That leaves little to no scope for independent decisions with regard to staff hiring or shaping the organization's research agenda. In other words, the Executive Board not only decides upon the use of Fund resources and general policy initiatives but also organizational matters including future research. Combined with the hierarchical nature of the IMF and its clear structure, the Board plays a powerful role in the IMF.

All four characteristics form an organization and make it to what it is, how it relates to its outside world, and how it behaves regarding policy norm change. They are therefore related to triggers and mechanisms of norm change. An organization with a strong Executive Board and a strict hierarchical structure might be less prone to bottom-up processes of change where staff actively lobby for creating new policy norms. The following empirical analysis pays particular attention to these variables.

3. Social Practices and Contextualization: Tracing the Social Development Policy Norm in IMF Policies

In 1999 the Fund officially subscribed to the social development policy norm's objective of 'poverty reduction' by joining the *Poverty Reduction Strategy* initiative. It was the first time that poverty reduction appeared on its website as a priority objective. That is not to say that poverty had not been recognized as a problem before. However, as we will see below, the Fund's position had been that poverty does not relate to its area of expertise or its scope of intervention. Yet, by the turn of the century a few social staff were hired, a *Poverty and Social Impact Analysis* unit was set up, and conditionality was extended to social conditions. While the fundamental norm of development had shown signs of change almost a decade ago (Emmerji et al. 2005), the Fund seemed reluctant to adjust to these developments. It only reacted after the East Asian crisis had shaken its self-understanding and image due to the mismatch of its predictions with the actual event. Looking more closely at how the Fund theorized the relationship between economic growth and poverty reduction and the role of social policies to foster development, it becomes clear that the social dimension of development had never figured prominently in its approach. That is to say, while the policy norm has gained formal validity in the organization it has not achieved social recognition. Why is the organization now promoting the policy norm? Based on a document analysis and interviews with IMF staff, three periods can be distinguished from the late 1970s until today when social policies figured differently inside the organization: the realization of income distribution, the era of social safety nets, and the discovery of poverty reduction which show the strengthening of the policy norm over time.

1. The Realization of Income Distribution

The Fund's first involvement with social issues dates back to the early 1980s. Yet, the word *social* did not appear in papers and policies but entered IMF's policies through the realization that its macroeconomic stabilization programs have distributional effects. Confronted by critiques from the development community, the IMF at first defended its programs with two main arguments: First, drawing on a counterfactual of a country that does not implement Fund-suggested adjustment programs but opts for an expansion of its public sector (IMF 1986), the Fund argued that inflation control benefits the poorest segments of a society:

> In general, lower-income groups tend to have the least access to assets whose values rise *pari passu* with inflation and are most likely to hold their savings in a monetary form. That these same groups are often the weakest in their ability to secure effective indexation of their wages strongly suggests that reducing inflation has egalitarian implications (Johnson and Salop 1980: 3).

The second argument stressed the country's sovereignty and responsibility regarding the implementation of stabilization programs. It is in the government's scope of "whose demand is reduced in the initial phase of the program" (Johnson and Salop 1980: 20) not the responsibility of the IMF which cannot intervene in domestic politics.[vi]

Only in the late 1980s, when external critiques against Fund programs mounted, did the organization start to explicitly acknowledge the social implications of its adjustment programs. The point of departure was the basic assumption that Fund-supported programs inevitably affect poverty groups

> …, because they influence not only aggregate demand, supply, and the overall price level but also the composition of demand and supply and, therefore, relative prices (Heller et al. 1988: 8).

Getting involved in social development was subsequently legitimized by referring to the compensation function of social policies that purportedly enhance the viability and political acceptability of stabilization programs by buffering social costs and income distribution.

> Implementation of adjustment measures that are perceived to be detrimental to the poor may not only jeopardize a current adjustment program but may also deter governments from embarking on such programs in the future (Heller et al. 1988: 1).

This was the IMF's official position on social policies in the 1980s. Looking closer at the debates and developments inside the organization sheds light on how the organization balanced economic conditions and political pressures in its organizational context aligning it with its mandate. The world economy of the 1970s was characterised by stagflation, i.e. low productivity growth, high inflation, unemployment, and economic imbalances. This led to a significant increase in borrowing by developing countries. The Fund's response to the first oil crisis was to increase facilities with low conditions. After the second crisis adjustment programs were introduced with high conditionality (Boughton 2001). However, conditionality did not seem to work. External criticisms against Fund stabilization programs mounted, concluding that they were not achieving their objectives of balance of payments, growth, and reducing inflation (Helleiner 1987; Killick 1984, 1982; Bird 1982). Furthermore, critics claimed that they had adverse social and political implications that had to be addressed (Gerster 1982).

Yet the type of knowledge required for dealing with social issues did not exist in the IMF. In 1977, then managing director H. Johannes Witteven requested in-house research on the topic (Boughton 2001). In fact, Witteven was concerned with the Bank's development in this direction and foresaw possible conflicts between the two organizations. Thus, he suggested research to be done by the Fund rather than to rely on the Bank (see Historian's files in IMF/RD, cited according to Boughton 2001: 696). Two internal studies were published in 1980; one on income distribution (Johnson and Salop 1980) and the other on basic needs (Borpujari 1980). While the first one became widely regarded as the Fund's response to the problem, the latter was neglected in the Fund's internal discourse. It was not cited in Fund's research papers and only marginally mentioned in its history (Boughton 2001). Interestingly, Borpujari developed a framework which incorporated financial constraints into a model in which development depends on the economic ability to provide for *basic needs*. But instead of linking such an approach with its conditionality, the Fund decided to focus on *income distribution*.

A closer look at the historical accounts reveals that the search for a *basic needs approach* was externally driven by the US (Gerster 1982). Both the left and right forces in the 95th US Congress, driven by separate motivations, pushed for a basic needs approach and threatened to reduce the IMF's funding unless it changed its programs.[vii] An agreement was achieved by amending the *Bretton Woods Agreement Act* and incorporating basic human needs and human rights. In the end, the basic needs approach was not proposed to the IMF Executive Board until the end of 1981. By then, presidential elections had taken place and the Carter Administration was replaced by the Reagan Administration. The US Executive Director in the IMF was replaced and the implementation of the basic needs policy did not take place. In the IMF, the idea of a basic needs approach was dropped and replaced by addressing the issue of adverse effects in an economic way by focusing on income distribution.

This account shows two things: first, the Fund's engagement with social issues was stimulated from the outside. The main trigger was the US threat to withdraw contributions. Yet secondly, once confronted with claims from the outside the organization developed its own approach and thus decisively shaped the policy norm. Instead of adopting the basic needs approach it opted to focus on income distribution. That might not come as a surprise given its mandate and professional culture which was not geared towards social issues. There was a significant lack of knowledge which took time to address. Translating *social* implications into an *economic* issue of income distribution was the consequence.

Still the income distribution approach had to be operationalized into Fund practice. In the mid-1980s, a seminar on income distributional effects of Fund-supported programs was held in the Fund's Executive Board based on three in-house research papers that developed a methodology for operationalizing income distribution in Fund programs (for published versions see Gupta and Nashashibi 1990; Heller et al. 1988; IMF 1986). An approach for how to define and measure poverty was required before designing policy measures to mitigate the adverse effects of Fund programs. Again, all three papers point out the lack of data and knowledge as an obstacle for a comprehensive and accurate assessment of adjustment programs' poverty impacts. But instead of establishing this expertise within the organization the Board decided that the Fund should rely on the Bank's data and expertise in the area of poverty. Furthermore, the Board's review of Fund conditionality concluded that social issues should not be related to conditionality (Boughton 2001). In other words, while Fund management and staff did engage in the issue the Board was the trigger for how the Fund responded to even this process. In the end, the Fund's operational solution was an emphasis on technical advice regarding subsidies and government expenditure which eventually materialized in two new lending facilities, the structural adjustment facility (SAF) in 1986 followed by the enhanced structural adjustment facility (ESAF) in 1987.

2. The Era of Social Safety Nets

By the mid-1990s, the Fund provided a very clear framework for different kinds of safety nets that operationalized the policy norm. Social safety nets are defined as

> … ad hoc or permanent arrangements that mitigate possible adverse effects of economic reform measures on the poor. Different countries have different social policy instruments which provide a basis for designing social safety nets and face varying financial constraints. In many countries, a core of social safety nets would include a mix of limited subsidies on basic necessities (particularly basic foodstuffs), social security arrangements (such as pensions and unemployment benefits), and possibly public works programs adapted for this purpose (IMF 1993: 23).

Furthermore, the Fund argues that such measures should not only be implemented at the time of reform but "… it is important for countries to establish cost-effective permanent social security measures to deal with "normal" contingencies." (IMF 1993: 3) Moreover, it is acknowledged that a minimum set of such measures could be integrated into economic reform programs (ibid.: 20).

It was again through external triggers that the Fund adopted social safety nets into its set of policy tools. They were introduced to the Fund at the 39th meeting of the joint Bank-Fund Development Committee[viii] and therefore from the outside, or more specifically, through discussions with the World Bank (Development Committee 1990). This is not to say that the Fund belatedly accommodates outside pressures. There were also signs of leadership from management to foster the policy norm. With the take-over of Michael Camdessus as managing director in 1987 there had been internal developments on social policies aiming at poverty reduction. Despite the Board's cautious position regarding the Fund's activities in social issues, Camdessus initiated seminars and workshops for Fund staff working on countries with adjustment programs in order to sensitize them for the problem of poverty and to address conceptual and practical questions. Furthermore, management adopted a directive to include poverty in Fund's work by preparing poverty profiles for each country, by addressing the problem in loan negotiations, and by examining whether the policy mix could be designed differently so as to decrease negative effects of the programs (see IMF 1990). In addition, in 1990 Camdessus extended the Fund's goal to "high-quality growth" defined as (1) sustainable growth that is resistant to external shocks, (2) accompanied by domestic and external balances as well as investment, also in human capital in order to stimulate future growth, (3) that takes care of the environment, and (4) is accompanied by poverty reduction and equality in opportunity (Camdessus 1990). Finally, in 1991, he directed staff to include an analysis of social costs in all Fund programs (Boughton 2001).

Compared to the Fund's standpoint a decade ago these developments signify a major change in its normative understanding. However, since the Fund's mandate is primarily economic, i.e. to help countries with balance of payments problems and secure macroeconomic stability through macroeconomic and structural policies, its involvement in social issues needed to be legitimized. Two arguments were employed to justify its extended involvement in social policies: First, social policies have a positive impact on Fund programs by ensuring political sustainability and fostering economic growth through risk reduction (IMF 1993). Second, social policies are related to the organization's technical expertise. Since the financing of such measures is achieved through efficient public expenditure, social safety nets are an important fiscal policy issue, and thus, fall within Fund's expertise. Therewith, the Fund's scope of action increased significantly. While the issue of social safety nets was first only linked to the adverse effects of Fund programs, the extended argumentation for social safety nets as a matter of fiscal policy legitimized the introduction of social policies as an issue of technical advice on social sector spending. At the same time it emphasized the economic value of social policies. Indeed, internally, social policies were still referred to the strengthening of a "broad social acceptability necessary for economic reform to succeed" or as “a moral imperative” (Gupta and Nashashibi 1990: 14) signalling that the norm has not been internalized by the organization.[ix] Again, the Fund is not actively involved in taking on social development policy. But once engaged in debates about it the organization decisively shaped definitions of social development as a policy norm in order to align it with its original mandate.

Throughout the 1990s internal debates continued over the Fund’s role in social development and sustainable growth. Two internal conferences took place in 1995 and 1998 on equity and growth with high-level economists (IMF 1995). For the first time in official documents, the Fund uttered the following position on the relationship between economic growth and redistribution: “… an excessively unequal income distribution may be detrimental to sustainable growth by hampering the efficient use of, and investment in, physical and human capital …” (IMF 1995: 2). Controversial ideas were presented at the conferences, but in the end, conference participants adhered to the Fund’s original mandate and agreed that the Fund should not get involved in social policies. Nevertheless, the issue was still on the table. The successor of the 1995 conference focused on operational aspects in addressing equity. The discussion reflects the Fund’s search for a legitimate reason to engage in *social* activities. The accompanying paper, “Should equity be a goal in economic policy?” (IMF 1998b), concludes:

> A consensus is forming nevertheless that governments should sometimes intervene to ensure not only that the size of the pie increases, but that everybody gets a fair share. (IMF 1998b: 11)

Since “… recent research suggests that inequality can hinder growth” (IMF 1998a: 18) the Fund’s engagement with inequality is a technical matter. It is then for economic growth but not for a “normative” reason such as equality that the Fund is allowed to intervene (interview on March 19, 2004). According to the Fund’s internal norms, economic growth is an apolitical, value-neutral goal.

The organization seemed to search for an appropriate approach to operationalize the growing external pressure and changing views on development with its own mandate and conviction that development equals economic growth, which it perceives as a technical matter. The overall development discourse and practice changed significantly after 1990. The UN proposed a human development approach. In 1995, the World Summit on Social Development took place in Copenhagen where heads of states adopted the Copenhagen Declaration and a Program of Action stressing the objectives of poverty reduction, full employment and just and safe societies. In addition, NGO critiques increasingly challenged the IMF (such as the *Fifty Years is Enough* campaign). These developments had an impact on the organization; yet, no major operational or organizational changes took place from which one could conclude that the IMF took up the idea and actively engaged in translating it into a policy norm. The decisive shift in Fund's behaviour towards an emphasis on social development that combined poverty reduction and economic growth only took place in 1999 with its participation in the PRSP program initiated by the World Bank. This happened against the backdrop of two independent events: the external review of the ESAF and the East Asian financial crisis.

3. The Discovery of Poverty Reduction

Poverty reduction, as the main objective of a *social* development policy norm, was finally only introduced into the Fund's operational reality with the *Poverty Reduction Strategy Paper* (PRSP) initiative in 1999. In this context it should be noted that it was not the first time for the IMF that poverty was an issue. In 1985, Ravi Kanbur wrote an IMF research paper discussing the relationship between poverty and growth and the effects of macroeconomic adjustment (Kanbur 1987). This paper is proof that most of the issues regarding poverty were already known in the mid-1980s. It delivers an argument in favour of redistributive measures. Under the assumptions that the poverty line is fixed, that the mean income of the poor is half of the poverty line and an annual per capita growth of 3 percent, "it will take *more than twenty years* for the average poor person to be lifted out of poverty." (ibid.: 70) It is for this reason that "[e]xplicit redistributive strategies may well be introduced in response to slowness of "trickle down"[x]—it is simply a matter of political arithmetic" (ibid.: 70). Thus, already in 1987, the basic insights into how to reduce poverty were known inside the organization. However, this paper was ignored in following studies on income distribution as well as in the Fund's historical account (Boughton 2001). In other words, the ideas and knowledge had already existed in the mid-1980s but the Fund did not pick up on them and translate them into a new policy norm.

By the end of the 1990s however, external conditions had changed. The East Asian financial crisis had shaken the IMF's self-image of being able to prevent such crises. It followed the Bank's lead and joined the PRSP initiative. In order to implement this new framework, the Fund established the *Poverty Reduction and Growth Facility* (PRGF), the successor of the SAF/ESAF. For the first time, social issues were incorporated into Fund conditionality. Nowadays, the Fund's role regarding poverty in developing countries is openly debated. Poverty reduction is often discussed as an equal objective of the organization next to economic growth, even though it is not mentioned in the *Articles of Agreement*. Fund research papers address the relationship between growth and poverty pointing out that this is not causal but that there is an association, while further noting that "… the causality could well go the other way. In such cases, poverty reduction could in fact be necessary to implement stable macroeconomic policies or to achieve higher growth." (IMF and World Bank 2001: 5) This quote signifies a major turn-around of the Fund's understanding of development, from economic to social development. How was that possible?

A combination of a major external shock and further criticisms of the IMF opened up policy space for this shift to take place. In 1996, when critiques mounted against the Fund's structural adjustment programs, and other development agencies had already started to shift their strategies significantly, the Executive Board asked for an *external* review of the ESAF. Fund programs had never been evaluated externally before. The final review was highly critical of Fund practice and revealed three main aspects in particular: First, there is a decisive lack of program ownership which has led to severe implementation problems in developing countries. Second, ESAF programs have not sufficiently focused on the protection of the poor. Third, one of the findings blurred the established division of labour between the international organizations. It concludes with the objectives to

> … better focus ESAF by improving protections for the poor, by improving the cooperation with other international financial organizations and bilateral donors, and by strengthening "ownership" (Botchwey et al. 1998, part one: 4).

The report's main critique of too little country-ownership of programs seemed plausible and was partly a more palatable explanation about why Fund programs were not successful. More importantly, this evaluation was positively received because its convenor, Kwesi Botchwey, was a highly recognized economist (and former Finance Minister of Ghana), an important factor within the IMF. From the interviews it became clear that status, hierarchy and performance play an important role in the Fund. Internally, different departments, careers and positions are attributed a certain ranking in the hierarchy.[xi] These internal standards also apply to the outside world.[xii] The organization is difficult to criticize without being an economist, and even if one is, they have to be highly respected to be taken seriously.[xiii] Thus, Botchwey's criticisms found more resonance than any NGO protest because it resonated with the Fund's organizational culture. Furthermore, it damaged the organization's vanity by revealing its reputation as an arrogant organization that imposes its values and perceptions on developing countries (ibid.).

The publication of the results of this review coincided with the onset of the East Asian financial crisis. It revealed in a staggering way the Fund's inability and lack of knowledge to predict and deal with every kind of financial imbalance. As a result of the detrimental effects of the crisis on people in the region, Camdessus stressed the need for a social pillar within the international financial system (see Gupta et al. 2000). But in general the crisis was an exogenous shock that caused a situation of uncertainty and perplexity. In this situation, the ESAF review's effect was much higher and its criticisms fell on fertile soil. Consequently the Fund agreed to participate in the PRSP initiative. Using the "back door approach" (interview on April 8, 2004), Masood Ahmed, an economist mainly responsible for the design of the PRSP in the Bank and then hired by the Fund not only managed to convince the Board to change the name of the lending facility from ESAF to PRGF. Following the renaming, he put a description of this new facility on the website mentioning poverty reduction as the *first* of the PRGF's seven key features (interview on April 8, 2004).[xiv]

Once the Fund became engaged in the PRSP, it triggered, for the first time, substantial organizational and operational changes. This was a starting point for the norm to gain validity through social recognition beyond its formal validity as acknowledged in policy papers and strategy documents. Social issues were first incorporated into conditionality guidelines for Fund resources (Gupta et al. 2000: 22). PRSPs are decisively different than their predecessors under SAF, ESAF, and the Policy Framework Papers. PRSPs state precise quantitative targets and performance criteria and aim to monitor the budget allocation. These targets have been included in Fund conditionality as benchmarks. Secondly, such an approach also requires much more data, in particular social indicators and poverty measurements. In addition, with the introduction of the PRSP, the measure of social safety nets now requires an ex ante social impact analysis and monitoring. Therefore, in 2004, the Fund established its own unit on poverty and social impact analysis (PSIA) within Fiscal Affairs Department (FDA).[xv] Finally, a few social scientists were hired in order to consult Fund economists on the social aspect of their country missions. While country teams usually only met with the respective governments, especially the Ministers of Finance, the participatory process implemented by the PRSP now requires roundtables with all the relevant stakeholders of the development strategy in the respective country. As a result, members of the IMF's country team now have to talk to NGOs and civil society which is, as one interviewee pointed out, a broadening experience for the staff (interview on March 29, 2004).

While things have changed, the Fund has not fully internalized the newly emerged norm complex that fosters a holistic approach to development emphasising social, political and cultural aspects at the same time as economic. Managing director Horst Köhler (2000-2004) for instance proposed to hire more non-economists in the organization by arguing that they were needed to consult economists in the social aspects of their work. Most likely, this would have improved the cultural validity of the policy norm inside borrowing states. Yet his proposal was defeated in the Board (interview on March 16, 2004). Moreover, it is not the Fund that finances the few existing social scientists but the Department for International Development (DfID) in the UK. Furthermore, a number of Directors in the Board cautioned "… that the IMF should not allow its primary mandate to be diluted. […but should rather] … contribut[e] to poverty reduction mainly through its support of economic policies that provide a conducive environment for sustained growth." (Gupta et al. 2000: 28) This group further points out, while acknowledging the importance of social issues, that "[i]n the family of international organizations, the social components of country programs are primarily the responsibility of the World Bank and other organizations, not the IMF." (Gupta et al. 2000: 1) Staff echo the Board's sentiments (several interviews with Fund staff in March 2004). On the other hand, there is a group including the newly hired social scientists that stands for policies that would clearly exceed the Fund's economic focus and thus would broaden its horizon significantly.[xvi] It remains to be seen which direction the Fund will go and how much influence 'soft' economists in the Fund can exert as norm entrepreneurs.

4. Conclusion: Owning Development or Lacking Ownership?

This chapter addressed two questions: first, why did the Fund get involved in social policies and eventually subscribed to poverty reduction as a policy objective? Secondly, to what extent and in what way has the Fund internalized this new policy norm? As to the first question, tracing the history of the social development policy norm in the IMF revealed the mechanisms and main triggers for norm change in the Fund as well as the way in which the Fund shaped the content of that particular policy norm. The objective was to detect conditions under which the organization engages in norm change which eventually could be used to derive some plausible statements either about norm creation in the Fund regarding other policy areas or about norm creation in IOs generally. It became clear that in particular two conditions are important in this specific case: the high level of dependency when it comes to policy decisions and the high degree of inconsistency of social issues with the Fund’s mandate, expertise and beliefs. We could therefore assume that the IMF might behave differently when it comes to a different policy norm that is more in line with its expertise (Leiteritz and Moschella, in this volume). Alternatively, another IO which depends less on the decisions of its Executive Board might be more active in creating policy norms (e.g. Weaver, in this volume).

Specifically, the case study revealed that at different times various social policies have entered the Fund’s discourse through top-down processes from the Executive Board. They have also come from the outside the IO through a changed normative environment in combination with an external shock where the Executive Board could not withstand external criticism and threats to the organization’s legitimacy. The study showed that in a situation where the organization lacks autonomy and the Board is not in favour of a particular policy norm, the nature of the external pressure is crucial in triggering change.

While management, in particular managing director Michael Camdessus, tried to develop Fund expertise in social issues, the case study revealed that the Board had the final say. Contrary to other IOs there is no evidence of norm entrepreneurs among Fund staff that would pro-actively lobby management or Board in this particular policy area. Such bottom-up processes are in general less likely in the IMF (see also Leiteritz and Moschella, and Momani, in this volume). Internal advocates such as the non-economic social scientists in the World Bank have actively and strategically fostered the social agenda inside the organization by inviting guest speakers, writing research papers and the like are difficult to imagine in the IMF (Weaver in this volume; see also Park 2007; Vetterlein 2007; Kanbur 2001; Fox 1998; Kardam 1993). This is even more the case regarding a policy area which is clearly beyond the organization's mandate and staff expertise and belief. But even if ideas match the organizational mandate and interest, originate inside the organization and management and staff work on transforming them into policy norms as was the case with capital account liberalization (Moschella 2008) or the proposal for a *Sovereign Debt Restructuring Mechanism* (SDRM), it is eventually the Board that decides. Both policies were rejected by the Board and hence all research on these topics ceased. Thus, the autonomy of an IO seems to be a very important aspect for norm creation within IOs.

Secondly, because the changed fundamental norm of development was imposed from outside the Fund, the organization did not, and does not, fully appreciate the policy norm on social development. Often, social policies are deferred to the World Bank (several interviews with IMF staff in March 2004). The emerging understanding of development as a holistic process beyond economic development supports the focus on poverty reduction and thus the emphasis on social policies. Yet, the Fund lacks expertise on social development issues and probably lacks the political will to engage with such policies. It does not *own* this policy norm but accommodates it; yet thereby shaping it decisively to make it consistent with its mandate. Referring to the norm circle from the introduction, the Fund has been persuaded to engage with the policy norm on social development, yet internally the norm has not been stabilized since it is not yet fully internalized. It exists formally but as the ongoing debates in the IMF show, it has not been socially recognized by IMF staff. This has two consequences: On the one hand, if social development is not fully internalized by IMF staff it will be easy to abolish it. On the other hand, often social issues are either transformed into economic ones or the value of social polices for economic growth is emphasized. Given that the IMF is powerful in teaching policy norms to developing countries this is important. From a critical-normative point of view we might ask whether it is desirable that the IMF becomes increasingly involved in social development in light of the observation of an increased economization of the social.

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[i] See http://www.imf.org/external/np/prgf/2000/eng/key.htm, visited January 28, 2007.

[ii] The terms poverty reduction, social development and social policies are used in accordance with Fund practice in the following way: Social development as a policy norm departs from a narrow focus on economic development and aims at combining economic and social policies. Contrary to the 1980s when economic growth was the main objective of development policy, in the social development policy norm poverty reduction is seen as equally important. As a result, social policies have reached a more prominent status in IMF policies and displaced the exclusive focus on economic policies. This so-called "social dimension" of Fund policies (see http://www.imf.org/external/np/exr/facts/social.htm, visited June 2, 2008) developed incrementally by adding on policy measures from dealing with income distribution (1980s), social safety nets and social funds (1990s) to the Fund's participation in the PRSP (1999).

[iii] Leadership is the prominent example here. How it matters in IOs is discussed in other studies as well (e.g., Mallaby 2004). The example in Park (2006) is McNamara who decisively changed the World Bank's identity towards a development agency when assuming position of Bank presidency in 1968.

[iv] See http://www.imf.org/external/pubs/ft/aa/aa01.htm, visited February 19, 2007.

[v] See http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/0,,contentMDK:20049557~menuPK:63000601~pagePK:34542~piPK:36600~theSitePK:29708,00.html, visited February 19, 2007.

[vi] References to the country's sovereignty are still used today to argue for the appropriateness of Fund programs and policy suggestions that are distorted by 'wrong' implementation. To quote one of my interviewees: "This is not possible to control. The Fund isn't a government. [...] The state remains sovereign. What they do in the end [...] is hard to monitor for the Fund. These are sovereign states." (translation by the author, interview on March 19, 2004)

[vii] See debates in the House of Representatives and the Senate about US participation in the so-called *Witteven Facility* in 1977 and the increase of US quota in the Fund in 1978 (Gerster 1982: 503ff.).

[viii] The Development Committee, formally known as the Joint Ministerial Committee of the Boards of Governors of the World Bank and the IMF on the Transfer of Real Resources to Developing Countries, was established in 1974. It is the only joint ministerial body of both organizations and it pays special attention to the problems of developing countries and is thus an important place for the coordination of international economic activities. It consists of 22 members, usually ministers of finance, appointed for two years. It is required to report and advise the Boards of Governors to both organizations.

[ix] Several interviews with IMF staff confirm these accounts in the documents. The assumptions of the so-called Washington Consensus are reiterated, i.e. economic growth will lead to poverty reduction and therefore the 'right' economic policies are more important than social policies. Or social policies are seen as necessary to facilitate economic reforms. Anything that goes beyond this becomes the World Bank's scope of intervention.

[x] This mechanism was first formalized in 1955 by Simon Kuznets.

[xi] My interviewees emphasized differences in IMF's and Bank's group meetings or meetings with the governments of developing countries on missions. In the Bank a much more open and egalitarian climate prevails while in the Fund it is (informally) clear who is allowed to speak.

[xii] This, combined with its technical (economic) language, is one of the reasons that makes the organization look like it is being arrogant. And indeed, it is less approachable than the World Bank for instance. Its world of highly skilled macroeconomists makes this organization look like a clique.

[xiii] There are other examples: Contrary to Stiglitz who lost his credibility after attacking the Fund in a too personal manner, Köhler was not esteemed highly by the 'hard-core economists' for reasons of performance: "He has not published in any well-known economic journal." (interview on April 7, 2004)

[xiv] Apparently without management or Board approval (interview on April 8, 2004).

[xv] Like in 1977, when Witteven was concerned with Bank developments regarding a basic needs approach and thus called for a study in the Fund, one of my interviewees pointed out that the Fund did not want to rely on the Bank any longer for that kind of data because of the sister organization’s “high inefficiency” (interview on March 26, 2004). However, the same debate in 1988 did not lead to a unit on impact analysis (see above).

[xvi] See for instance Kende-Robb (2003) who tried to include a gender dimension in the Fund programs. A repeated story in the organizational memory of the Fund is about a strategic move of Fund staff from the African Department that invited Horst Köhler to a mission to Senegal shortly after he was appointed managing director in 2000. This mission must have been a crucial experience for Köhler and apparently shaped his attitude towards development and the Fund’s role in a more social direction (several interviews).