

**Between Change and Continuity: The International Monetary  
Fund and Economic Crises**

April 8-9, 2013

A Policy Workshop  
Sponsored by

Boston University Center for Finance, Law & Policy  
and  
Governance: An International Journal of Policy, Administration, and Institutions

Convened by Cornel Ban and Kevin Gallagher

## WORKSHOP SCHEDULE

**Monday, April 8, 2013**

**(All Monday sessions are invitation only)**

- 8.30-9.00am:** Coffee with croissants and fruit
- 9-9.15am:** Introductory remarks by Cornel Ban, Kevin Gallagher and Cornelius Hurley
- 9.15-10.00am:** “Skill Gaps in International Financial Surveillance: Assessing Pre- and Post-Crisis Policy Cliques,” by Leonard Seabrooke and Emelie Nilsson, Copenhagen Business School  
*Discussant:* Mark Blyth, Brown University
- 10.00-10.45am:** “Between Economic Necessity and Ideology: The Politics of IMF Programs before and after the Global Financial Crisis” by Grigore Pop-Eleches  
*Discussant:* Strom Thacker, Boston University
- 10.45-11.00am:** Break
- 11.00-11.45am:** “The IMF and Sovereigns' Private Creditors. What Has Changed and What May Change” by Aitor Erce, Bank of Spain and Universidad Autonoma de Madrid  
*Discussant:* William Grimes, Boston University
- 11.45-12.30pm:** “The Scope of Policy Advice in IMF Loan Programs” by André Broome, University of Warwick  
*Discussant:* Cornel Ban, Boston University
- 12.30-2.00pm:** Lunch
- 2.00-2.45pm:** “The IMF’s crisis conditionality and financial innovation: new actors, old policies?” by Daniela Gabor, Bristol Business School  
*Discussant:* Kevin Gallagher
- 2.45-3.30pm:** “The IMF and the Management of Capital Flows in the Wake of the Financial Crisis” by Kevin Gallagher, Boston University  
*Discussant:* Daniela Gabor, Bristol Business School
- 3.30-4.15pm:** “Between Paradigm Shift and Paradigm Maintenance: Fiscal Policy Research and Practice in the IMF during the Great Recession,” by Cornel Ban, Boston University  
*Discussant:* Alasdair S. Roberts, Suffolk University

**4.15-5.30pm:** Summary by conveners and Sarah Babb followed by final discussion by the group as a whole

**5.30-7.30pm:** Free time

**7.30pm:** Dinner at Eastern Standard  
528 Commonwealth Avenue  
Boston, MA 02215

**Tuesday, April 9, 2013**

**9.00 – 11.00am:** IMF Policy Breakfast, *Open to the Public*

- *9.00am* – Coffee and croissants available
- *9.30-10.00am* – A high profile master of ceremonies will introduce Michael Dooley, who will give a brief keynote address (20 – 30 minutes). The suggested topic for this address is Mr. Dooley’s own experience in dealing with Latin American economic crises, and what is different today compared to when this was his major area of focus.
- *10.00-10.30am* – The master of ceremonies will moderate a discussion with four invitees from the previous day’s workshop. The discussion will address themes covered the previous day.
- *10.30-11.00am* – Audience invited to participate in Q&A with panel.

**11.30-1.00pm:** Media interviews.

## WORKSHOP PARTICIPANTS

- **Sarah Babb**, Professor of Sociology, Boston College
- **Cornel Ban**, Assistant Professor, Department of International Relations, Boston University
- **Mark Blyth**, Professor of Political Science, Director of the International Relations & Development, Brown University
- **Andre Broome**, Associate Professor of International Political Economy, University of Warwick
- **Michael Dooley**, Professor of Economics, University of California Santa Cruz, Research Associate, National Bureau of Economic Research, International Research Fellow, Kiel Institute of World Economics, Senior Fellow with the BU Center for Finance, Law & Policy
- **Aitor Erce**, Lecturer at Universidad Autonoma de Madrid and Research Economist at Spain's central bank
- **Daniela Gabor**, Faculty Member, University of the West of England, Brisol Business School
- **Kevin Gallagher**, Professor, Global Development Policy Program, Department of International Relations, Boston University
- **William Grimes**, Department Chair of International Relations, Professor of International Relations and Political Science, Boston University
- **Joseph P. Joyce**, Professor of Economics Faculty Director-Madeleine Korbel Albright, Institute for Global Affairs, Wellesley College
- **Alex Kentikelenis**, Research Fellow, Harvard University
- **Grigore Pop-Eleches**, Associate Professor, Politics and Public and International Affairs, Woodrow Wilson School of Public and International Affairs.
- **Alasdair S. Roberts**, Rappaport Professor of Law and Public Policy Faculty Director, Rappaport Center for Law and Public Service, Co-Editor, Governance
- **Len Seabrooke**, Professor, Department of Business and Politics, Copenhagen Business School, Former Director of Studies of the Warwick Commission on International Financial Reform
- **Strom Thacker**, Professor of International Relations and Political Science, Associate Dean of the Faculty, Social Sciences, College of Arts and Sciences

## ARTICLE ABSTRACTS

### **Skill Gaps in International Financial Surveillance: Assessing Pre- and Post-Crisis Policy Cliques**

Author: Leonard Seabrooke and Emelie Nilsson  
Copenhagen Business School

In 2006 the IMF's Financial Sector Assessment Programme (FSAP) lauded Iceland's capacity to 'withstand extreme, but plausible, shocks' and compared the country's financial sector strategy to the Netherlands and United Kingdom. After the international financial crisis hit in 2007, senior officials soon bemoaned the lack of skills in FSAP teams and the need to import them from the private sector and standard setting bodies. This task was particularly difficult given staff freezes at the IMF, partly to appease their US and European constituencies. During the crisis the IMF was able to boost its legitimacy among the G20 powers and FSAP continued with an expanded range of systemically important economies. This paper provides an assessment of FSAP team composition pre- and post-crisis in OECD and BRICS countries. We highlight 'skill gaps' in team composition based on career histories of IMF FSAP staff and from external consultants. The paper relies on optimal matching and network analysis to identify policy cliques and their relationship to the assessment of systemically important economies. It also draws on interviews with those involved in financial sector assessment from both the international public and private sectors. We demonstrate that externally consulted policy cliques have significant weight in international financial surveillance and provide us with a host of reasons to reflect on institutional rigidities and staff pathologies in international organizations.

### **Economic Ideas, IMF Bailouts, and the Politics of Austerity**

Author: André Broome

What roles do economic ideas play in International Monetary Fund (IMF) bailouts? This paper identifies three distinct categories of economic ideas that potentially shape the dynamics of borrower state negotiations with the IMF, the bailout programs that result from these negotiations, and the domestic policy changes a government subsequently enacts. In contrast to much of the existing literature on the international political economy of ideas, this paper shifts the focus of analysis from studying the *intellectual content* of economic ideas to the *political functions* they perform. Specifically, the paper illustrates how the political functions of economic policy ideas help elite actors to build a coalition of support for fiscal retrenchment, and how the politics of ideas drives policy responses to crisis events rather than the other way around.

### **The IMF and the Management of Capital Flows in the Wake of the Financial Crisis**

Author: Kevin P. Gallagher

In the wake of the financial crisis the International Monetary Fund embarked on an official re-assessment of the role that nation states should play in managing short-term capital flows. That

two-year assessment resulted in an IMF Executive Board approved, new “institutional view” for the IMF on the role of capital account liberalization and the management of capital flows that will become official policy across IMF operations moving forward. This paper analyses these processes from an economic and political economy perspective. First, it examines the extent to which the IMF policy has changed relative to the turn of the century policy on the issue. Second is an assessment of the political economy factors that led to the new institutional view. Third is an economic assessment that evaluates the extent to which the new institutional view reflects the latest economic and policy thinking on the need to manage capital flows in emerging market and developing countries.

### **Between Paradigm Shift and Paradigm Maintenance: Fiscal Policy Research and Practice in the IMF during the Great Recession**

Author: Cornel Ban

Recent research and events show that the IMF is a more reflexive institution than its critics point out. Following the East Asian crisis IMF staff began to challenge the conventional wisdom about capital account liberalization, leading to at least a half step away from orthodoxy in the Fund’s policy advice by 2010. Throughout the 2000s but particularly after the failure of fiscal consolidation to provide growth during the Great Recession, the Fund’s research staff, external consultants and the very chief economist of this institution have piled up evidence that fiscal consolidation may produce suboptimal outcomes while fiscal activism was good for both short and long-term economic performance, under certain conditions. Yet despite the high profile of this dissident research, IMF’s policy advice in policy consultations and policy conditionality has not led to a fiscal paradigm shift. Instead, one can only note hesitating attempts to balance between softening austerity while cautioning against expansion. This paper attempts to explain the outcome by examining the institutional bases of the epistemic networks producing the dissident research and their relative strength in the Fund’s epistemic communities and institutional infrastructure. To do so, it examines the sociological profile of dissident researchers, traces their professional trajectories and seeks to analyze the reception of their ideas in the Fund’s policy output. The well-researched story of the IMF’s shifting positions on current account policy provides the benchmark against which the Fund’s fiscal policy is analyzed.

### **Title: Between Economic Necessity and Ideology: The Politics of IMF Programs before and after the Global Financial Crisis**

Author: Grigore Pop-Eleches

This paper analyzes the interaction between different economic crisis indicators and government ideology in IMF programs before and after the breakout of the global financial crisis in 2008. In particular I want to test whether the most recent wave of IMF programs have marked a return to a more ideologically polarized pattern in the initiation of IMF programs by countries experiencing economic difficulties. In my earlier work (Pop-Eleches 2008) I found crisis-driven policy convergence among governments of different ideological orientations in some contexts (Eastern Europe in the 1990s) but crisis-driven policy divergence in other contexts (Latin

America during the debt crisis of the 1980s). I argued that these differences were partly a function of whether the IMF was perceived as helping countries deal with a primarily domestic crisis (as in the case of the post-communist transition) or was seen as a tool of Western/Northern interests trying to impose adjustment costs on borrowers rather than lenders (as in the debt crisis of the 1980s). The other factor that I would expect to mediate the crisis-ideology connection was the global ideological context, which was still genuinely bi-polar in the 1980s but had given way to neoliberal dominance in the 1990s. The post-2008 period represents an interesting test case for these theories, and I would expect to see more ideological divergence than in the 1990-2008 period both because for many countries that crisis originated abroad and because there are a lot more vigorous ideological challenges to neoliberalism from a variety of sources (ranging from Chavez and other Latin American leftist governments, to China and Russia)

### **The IMF and Sovereigns' Private Creditors. What Has Changed and What May Change**

Author: Aitor Erce

In this article I study how the relation between the International Monetary Fund and sovereigns' creditors has changed as result of the most recent crises. I show that the traditionally greater protection provided to foreign creditors by the IMF has changed very little with the current crisis. The foreign creditors of a sovereign still count on specific mechanisms within the Fund's operational procedures to disincentive a sovereign default on them. Instead, as regards domestic creditors, there have been important changes. This changes is well reflected in the macroeconomic framework and financial resources of the most recent programs. The official sector is more aware now of the spillovers that debt crises impose on the financial system and tailors its financial assistance programs accordingly. Unfortunately, other domestic creditors (suppliers) are as unprotected as they always were. I argue that this institutionalized pecking order need not match with the best strategy to resurrect economic growth. As a result, going forward, if the aim of the IMF assistance is to restore economic stability, in some stances this might imply that the IMF makes a stronger defense of domestic non-bank creditors and try to minimize domestic arrears. Arguably, limiting domestic arrears could be deemed as too intrusive by members. In that case, the Fund should at a minimum require the corresponding governments to provide accurate indications on what the level of arrears will be, so that the macroeconomic framework of the program can take it into consideration.

### **The IMF's crisis conditionality and financial innovation: new actors, old policies?**

By Daniela Gabor

The global economic crisis has brought an important shift in the IMF's understanding of crisis, its triggers and its actors. It now recognizes large capital inflows act as the main conduit for the transmission of global shocks, in contrast to its previous concerns with current account dynamics. In response, the IMF now advocates macroprudential policies orientated at systemic risk to complement monetary policy targeting price stability. With this, the IMF has included private financial institutions in its analytics of crisis and conditionality, previously focused on governments (fiscal policy), central banks (monetary policy) and trade union/state-owned

companies (structural reform). The paper reflects on the implications of this ostensibly more nuanced analysis of the domestic configuration of crisis. Because these new actors straddle the monetary-macprudential divide, they pose difficult questions for the IMF's still benign view of financial globalization as well for its design of crisis conditionality and in particular its distributional consequences. By comparing (Eastern) Europe and Latin America, it argues that cross-border banks can make decisive interventions in the IMF's crisis advice in order to prevent domestic institutions from carving an independent regulatory path or from designing adverse tax adjustments.