From Washington Consensus to Flexible Keynesianism? The International Monetary Fund after the Financial Crisis

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The article examines the transformation of IMF lending policy in the wake of the recent financial crisis. The paper explores the feasibility of Peter Hall's heuristic on policy learning for the study of the fund's transformation, discusses its shortcomings, and analyzes the driving forces of change. The reshaping of policy instruments and their underlying ideas was driven by both IMF management and staff and by the member states. It is argued that a change of economic instruments, their setting, and the economic ideas underlying the use of instruments is heading in the direction of a "flexible Keynesianism" as an economic and funding philosophy. However, the shift toward a new paradigm is incoherent since it allows for differential treatment of member states and for flexible adoption of this economic philosophy. A movement toward a new paradigm is in progress, while a paradigm change has not yet materialized.

Introduction[1]

Recent developments within the International Monetary Fund (IMF) show that crises not only produce losers but also winners. At the London summit in April 2009, the heads of the Group of Twenty (G20) nations decided to triple funds for the IMF to a total of US $750 billion. Thus, the IMF returned to its core business—providing liquidity to cope with external imbalances. The crisis also seemed to mark an ideological break with the past. Dominique Strauss-Kahn, then the managing director of the IMF, announced that anti-cyclical economic policy was the order of the day. British Prime Minister Gordon Brown called for a multilaterally coordinated policy of fiscal stimuli and declared that the Washington Consensus was dead. He thereby called into question the paradigm of free market fundamentalism as an economic policy, one that had influenced the work of international finance institutions in the 1990s (Williamson 1990; Babb 2013).

Five years after the announcements of a break with past, International Political Economy (IPE) scholarship tries to establish how much the fund has departed from the core of the Washington Consensus and what forces might drive organizational and ideational changes (cf. Grabel 2011; Clegg 2012; Güven 2012; Presbitero and Zazzaro 2012; Babb 2013; Joyce 2013; Ban 2015; Ban and Gallagher 2015; Broome 2015; Clegg 2014; Gabor 2015; Gallagher 2015; Lütz and Kranke 2014; Seabrooke and Nilsson 2015). Research has addressed a variety of topics, such as fiscal policy, financial sector policy, the substance of loan conditionalities, including social spending targets, political determinants of IMF lending and governance processes or the scope of the policy dialogues between IMF staff and domestic authorities while negotiating targets of lending programs. The authors of a recent special issue of *Governance* find the transformation of the fund's doctrine and policy practice has been quite diverse depending on policy issues and different parts of the fund's bureaucracy (for a summary see Ban and Gal-

1. Research for this paper was supported by the German Research Association (DFG Grant No. LU 867/2–1). I am indebted to Julian Dederke, Martyna Linartas, Sebastian Schneider, and Tim Schreiber for valuable research assistance and to two anonymous reviewers for helpful comments.

lagher 2015). Recent evidence suggests substantial doctrinal change, particularly regarding financial sector policy and the systemic risks posed by global banks but also with respect to fiscal policy, although scholarship is divided on this issue. While Daniela Gabor (2010) and Ali B. Güven (2012) state that the fund maintains an emphasis on fiscal consolidation, André Broome (2010), Ilene Grabel (2011), Susanne Lütz, and Matthias Kranke (2014) find a more flexible approach toward fiscal stability that allows for countercyclical fiscal policy and for more gradual fiscal consolidation. In line with this research, Liam Clegg argues the (almost universal) integration of social-spending targets into concessional lending arrangements contributes to a post–Washington Consensus shift in global economic governance (Clegg 2014: 754).

This paper takes issue with the debate on the transformation of the IMF in the wake of the Great Recession by focusing primarily on the fund's lending policy. This field is considered crucial for a study of policy change since lending conditions reflected the bundle of orthodox economic policies related with the Washington Consensus. In this article, the Washington Consensus is interpreted as a policy paradigm. Following Peter Hall's heuristic on policy learning and social change, a policy paradigm is an enduring framework of related ideas and standards about policy that specifies both the instruments that should be used in a policy area and the goals the policy should be addressing (Hall 1993: 279). John Williamson, a Washington think tank economist, outlined ten policies that economists and policymakers around Washington, D.C., had agreed upon as a set of prescriptions for developing countries at the end of the 1980s. Williamson summarized the economic policies as "prudent macroeconomic policies, outward orientation, and free-market capitalism" (1990: 1). The core of the Washington Consensus was the practice of conditionality—providing loans to governments in exchange for policy reforms. Countries in financial trouble were to receive relief funds only if they agreed to strictly implement orthodox economic policy aimed at combatting inflation, cutting spending (particularly social expenditures), and pushing through comprehensive deregulation of labor and commodity markets. Following Sarah Babb, the Washington Consensus can be interpreted as a transnational policy paradigm produced by both intellectual and political forces. It was legitimated through economic scholarship but also embedded in the practices of bureaucratic organizations, such as the international financial institutions (IFIs) that had to encourage national governments to adopt the reforms (Babb 2013: 269).

Given that the Washington Consensus was deeply enshrined in the IMF's organizational rules and practices, a potential paradigm-change should be seen in changing instruments, policies, and ideas. I draw on Peter Hall's heuristic for the study of the organization's transformational shift and discuss the driving forces behind recent changes. Following Hall's approach, change in the work of the IMF is explored on the level of policy instruments, their settings, and the hierarchy of goals underlying their use. With regard to the lending policy of the IMF, it is argued that a process of change can indeed be observed on all three levels, thus indicating an ideological shift toward *Keynesianism* as an economic and funding philosophy. This shift is, however, incoherent, since it allows for differential treatment of member states depending on their individual economic conditions, such as underlying fiscal positions and public finances and also their preferences for economic policy instruments. A flexible adoption of this philosophy ensures countries deviating from this general shift (like Germany, Finland, or Netherlands) may be willing to join the overall consensus to prioritize investment over balanced budgets in order to support growth, demand, and job creation. The article argues that a movement toward a new paradigm is underway, whereas a paradigm change has not yet taken place.

The paper draws on both member state- and staff-centered perspectives to shed light on the mechanisms and driving forces of change. While the incremental reshaping of existing policy instruments has been driven by staff and the IMF management, the elimination, replacement and modification of policy instruments has been supported by the member states and corresponded with resolutions of the G20 or the IMF executive board. Finally, the ideological reorientation of the interpretative framework underlying the policy instruments was predominantly supported by those dominant member states who were interested in stimulating their own economy through expansive fiscal policies. IMF economists have supported this programmatic reorientation by providing and disseminating their research expertise on the functioning of economic instruments in the expert community.

The following section outlines Peter Hall's framework for the study of policy learning and elaborates on the theoretical approaches to explain the possible amount of organizational change. Following this is a depiction of the alterations that have occurred regarding the instruments of policy and the interpretative framework upon which they are based. A discussion of the dynamics and driving forces of transformation follows. The contribution concludes by discussing the feasibility of Hall's concept and the issue of a paradigm change.

Analyzing Organizational Change at the IMF

Peter Hall embeds his analysis of macroeconomic policy making in Britain over the 1970–89 period in the study of social learning. "We can define social learning as deliberate attempt to adjust the goals or techniques of policy in response to past experience and new information. Learning is indicated when policy changes as the result of such a process" (1993: 278). Hall assumes that the learning process may take different forms, depending on the kinds of policy changes involved. First-order change was attributed to the levels (or settings) of basic instruments of economic policy and happened while the overall goals and instruments of policy remained the same. Second-order change was reflected in altering the basic techniques of policy in response to past experience even though the overall goals of policy remained the same. Third-order change was marked by a radical shift in all three components of policy: the instrument setting, the instruments themselves, and the hierarchy of goals behind them. First- and second-order change can be seen as normal policymaking, a process of incremental policy adjustment that shifts toward more strategic action in case of second-order change. Both forms of incremental change do not automatically lead to third-order change. Third-order change reflects a different, more disjunctive process, marked by radical shifts in the overarching terms of policy discourse associated with a paradigm shift.

Hall does not present a coherent theoretical model to analyze driving forces and preconditions for policy change. However, he depicts several driving mechanisms in his study of alteration from Keynesianism to monetarism in British economic policy that we can draw upon. The movement from one paradigm to another that characterizes third-order change would involve the accumulation of anomalies within the terms of the paradigm, and, subsequently, experimentation with new forms of policy that gradually undermine the intellectual coherence and precision of the original paradigm. While instances of policy experimentation will be accompanied by contestation of experts, a shift from one paradigm to another would require a shift in the locus of authority over policy, thus initiating a wider contest between competing paradigms spilling beyond the boundaries of the state itself into the broader political arena. The movement toward a new paradigm will end "when the supporters of a new paradigm secure positions of authority over policymaking and are able to rearrange the organization and standard operating procedures of the policy process so as to institutionalize the new paradigm" (Hall 1993: 280–81).

According to Peter Hall, experts, bureaucrats, politicians, the media, voters, and also the wider public may spur policy change. With regard to an organization, such as the IMF, two types of actors in particular are most likely "change agents": member states on the one hand and IMF management and staff on the other hand.

From the perspective of state-centered approaches, changes in policy instruments or changes of economic policy paradigms result only to the degree that states permit and authorize this. The *realist* strand of IMF research sees state preferences determined by political power plays. As a result, a major role in determining lending policy of the IMF is attributed to the U.S., as the member with the largest vote share and veto power in the internal decision-making bodies of the IMF, and also to the five largest member states as a group, meaning Germany, France, Japan, Great Britain, and the U.S. (Thacker 1999; Stone 2002; Copelovitch 2010). According to this interpretation, the U.S. uses its influence within the IMF to channel financial support to countries it favors for political or geostrategic reasons. A liberal-intergovernmentalist shade of argument would stress that states represent the dominant economic interests of their country, which in this context are mostly those of their banks (Moravcsik 1997; Broz and Hawes 2006; Breen 2014).

An alternative perspective does not view the IMF as a unitary actor, but addresses the latitude available to its research experts and management staff in certain activities, such as providing research expertise, surveilling member states, or conceiving and implementing lending programs. *Rationalist principal-agent models* point to the "slack" given to agents commissioned with certain tasks by governmental principals (Nielson and Tierney 2003; Hawkins et al. 2006). Such slack arises from information asymmetries between agents and principals and, in cases where there are several principals, in part also from differences in opinion over the goals to be pursued. Basically, it is assumed that both the research staff and the management of the international organization are interested in expanding their own domains and the available resources linked to these and that these interests also influence their behavior. A *constructivist* interpretation understands inter- and supranational organizations as bureaucracies that, the longer their work continues, develop a life of their own, including the creation of their own norms, ideas, and belief systems (Babb 2003; Barnett and Finnemore 2004; Chwieroth 2010). On the one hand, routines and bureaucratic pathologies can result that hinder the international organization from changing and adapting to altered environments. On the other hand, the chance exists especially at the operational level, for example, to learn from past experiences in handling crises and to reinterpret the vaguely specified mandate of the international organization in the light of its own experiences (Lütz and Kranke 2014).

The Change of Policy Instruments and Ideas

First-Order Change: Re-adjustment of Existing Policy Instruments

Even before the financial crisis of 2007–08, IMF had initiated changes to the settings of existing financing instruments. In essence, this change sought to enhance the *flexibility of the conditionality linked to debt relief.* Incremental change of this kind was predominantly driven by the IMF managing director and IMF staff and later underpinned by member state resolutions. Especially after the Asia crisis, IMF had been criticized by the recipient countries about its "one-size-fits-all" policy that, independent of the national context or economic problem, imposed upon the borrowers a number of structural performance criteria that deeply interfered in national economic policy yet did not contribute to short-term economic recovery. These crisis experiences prompted IMF management and the experts involved in implementing national programs to rethink the principles for lending. Thus, IMF experts based reforms in the modus of "lagged learning" (Moschella 2011: 131) on learning processes introduced earlier.

Starting in 2000, under Managing Director Horst Köhler, a policy of streamlining was introduced that aimed, among other things, to instill an awareness of "ownership" within the countries participating in the program, meaning to take greater responsibility themselves for implementing reforms. The new principles for enhancing the adaptation of a national program to the conditions of the recipient country were specified in the revision of the "Guidelines on Conditionality" in 2002. However, the strategic shift toward focusing on more macro-critical conditionalities progressed rather haltingly prior to the financial crisis. A report by the IMF internal Independent Evaluation Office (IEO) pointed out that, until 2004, the number and extent of conditions linked to bailouts had been pronounced, and the conditions did not inevitably correlate with the success of a program (IEO 2008).

Dominique Strauss-Kahn assumed the position of managing director at the IMF in November 2007 and introduced a policy of flexibility in the conditionality framework, a broadened scope of surveillance, and, last but not least, a Keynesian-inspired evaluation of macroeconomic problems and their solutions (Joyce 2013; Ban 2015). At the meeting of the IMF executive board in March 2009, the member-state representatives gave IMF the go-ahead for a diversification of the lending toolkit, in conjunction with increased flexibility in the lending conditions (IMF 2009a). The London G20 Summit in April 2009 affirmed the intended reform; means had to be made available to rapidly overcome crisis, particularly in developing countries and emerging markets, while enabling countries to maintain social protection (G20 2009a). The strategy paper “Modernizing Conditionality” from May 2009, indicated a readjustment of existing policy instruments toward flexible conditionality polices (IMF 2009c). Among the most important changes with regard to setting policy instruments was the elimination of the structural performance criteria and the introduction of softer benchmarks, a greater emphasis on ex-ante as opposed to ex-post conditionality, a relaxation of monitoring requirements, a doubling of the maximal loan access limits (annually to 200 percent of quota and cumulatively to 600 percent of quota), an extension of the repayment period, and a simplification of repayment schedules. The introduction of a new category of “social conditionalities” was of particular importance to Strauss-Kahn. It was meant to insure that cutbacks would be accompanied by targeted social investments, meaning specifically that budget cuts would not endanger the sustainability of social nets. The re-adjustment of conditionality aims to give greater weight to measuring the success of a national program overall and less significance to monitoring compliance to specific program conditions. Basically this means that management, experts, and eventually the recipient nation receive greater leeway to evaluate the effectiveness of a program (Moreno 2013: 105; Clegg 2014: 755).

Second-Order Change: Change of Policy Instruments

Change of policy instruments was initiated by both IMF staff and the member states. On the one hand, it is clear that IMF experts were following patterns of incremental adaptation long established within the organization, because they had repeatedly modified and diversified their lending toolkit in the previous six decades (Bird 2003: 231–35). On the other hand, the restructuring of the lending toolkit has also been flanked by the member states. State engagement differed, however, depending on the respective state of economic development, lending needs, and individual experiences with certain economic instruments: Low-Income Countries (LICs) were seeking flexible access to credit, preferably without any conditionalities. Emerging countries built on their positive experiences with capital controls while continental European countries hesitated to introduce lending instruments not linked with conditionalities (Moreno 2013: 113).

In the course of the financial crisis, infrequently used facilities were discarded, new ones introduced, and the extent of the means available through the IMF expanded successively.[2] Between 2007 and 2011, the total number of national programs supported by the IMF using all types of lending went from thirty-six (2007) to fifty-six (2011). By the spring of 2013, this number had already sunk once again to forty-one (IMF 2013a).

The reform of the financing instruments was prompted by the desire to establish facilities to *prevent* crisis and not just to master it. Three characteristics stand out:

a) The differentiation of facilities according to the type of recipient nation and its economic problems
b) The reduction of ex-post conditionalities and the introduction of ex-ante conditionalities
c) The re-evaluation of the instrument of capital controls.

2. Among the discarded facilities were the Precautionary Credit Line (replaced by the Precautionary and Liquidity Line), the Rapid Access Component of the Exogenous Shocks Facility and components of the Emergency Natural Disaster Assistance and the Emergency Post-Conflict Assistance (all three of which were replaced by the Rapid Credit Facility); see IMF (2009c); IMF (2009b).

THE DIFFERENTIATION OF FACILITIES

Three facilities are tailored to LICs, to whom concessional "soft" loans are granted at basically zero-interest-rate conditions without explicit ex-post conditionalities: Extended Credit Facility (ECF), Standby Credit Facility (SCF), and Rapid Credit Facility (RCF). Four other facilities are geared more toward developed countries: Stand-By Arrangements (SBA), Extended Fund Facility (EFF), Flexible Credit Line (FCL), and Precautionary and Liquidity Line (PLL). These facilities offer "conventional" interest-bearing loans, however, at altered conditions. As the IMF's oldest lending instrument, stand-by arrangements can also be used as High-Access Precautionary Stand-by Arrangements (HAPAs), if needed; the advantages are a greater lending volume, the possibility to access loans of greater size at the start of a program (frontloading) in order to prevent crisis, and flexibility in tailoring the conditionalities to the needs of the borrower. The EFF is designed to offer longer term assistance than the SBAs and to support countries whose balance-of-payments difficulties are due to structural weaknesses in the economy. Accordingly, the conditions attached to EFF strive to achieve macroeconomic stability and to implement structural reforms. In return, the EFF offers loans that mature up to a maximum of ten years (IMF 2015a).

THE REDUCTION OF EX-POST CONDITIONALITIES AND THE INTRODUCTION OF EX-ANTE CONDITIONALITIES

The Flexible Credit Line (FCL), introduced in March 2009, replaces ex-post conditionality with ex-ante conditions in granting financial support. The recipient countries that qualify for such support exhibit solid fundamentals, have access to capital markets, and have demonstrated reliability in implementing reforms in the past (Grabel 2011: 823). Borrowers can access credit flexibly within a two-year period without having to comply with any other conditions. So far, few countries (Mexico, Poland, and Columbia) have used this facility. In addition to FCL, IMF also introduced the Precautionary and Liquidity Line (PLL), which replaced the Precautionary Credit Line (PCL). PLL combines ex-ante and ex-post conditionality and is geared toward countries where FCL is not available, but the countries can demonstrate, despite economic problems, "sound economic fundamentals and institutional policy frameworks" and "a track record of implementing—sound policies" (IMF 2015b). After the funds have been allocated (to date only to Morocco and Macedonia), the program is placed under surveillance in order to review over the course of time the criteria and the access of the country to international capital markets, its fiscal and monetary policies, and the stability and monitoring of its financial sector. Both FCL and PLL are designed explicitly for the prevention of liquidity crises caused exogenously.

The Final Declaration of the G20 Summit in Cannes in November 2011 once again underscored the relevance of PLL in particular and of IMF financing instruments and facilities in general that insure against exogenous shocks and provide non-concessional financing in cases of such unpredictable and disruptive events as natural disasters (G20 2011). Within the executive board of IMF, the introduction of the Flexible Credit Line was contested. Representatives from the continental European countries were particularly the ones who emphasized the danger of encouraging "moral hazard" they felt was inherent in a financial instrument lacking conditionality (Moreno 2013: 113). It is not by accident that no mention of FCL can be found in the G20 declaration.

THE RE-EVALUATION OF THE INSTRUMENT OF CAPITAL CONTROLS

Among the most prominent changes in the policy toolkit of IMF is its increasingly flexible approach toward the use of capital controls (see Gallagher and Ocampo 2013; Grabel 2013). After the Second World War, capital controls were instruments of macroeconomic management deployed by Western industrial nations and accepted by IMF. In the neoliberal era of the Washington Consensus, IMF pursued the policy of a far-reaching deregulation of financial markets and of the movement of capital. During this phase, developing countries like Chile, Malaysia, India, China, Columbia, or Thailand continued to maintain capital controls for a while and thus drew the harsh criticism from IMF. In the wake of the Asia crisis, IMF management and economic experts developed an increasingly accommodating attitude toward the use of capital controls. The latter was accepted in so far as they were aimed at capital inflows and were used only for a limited period of time, and if the economic fundamentals of the country could be said to be sound (Grabel 2011: 813). When Iceland turned to IMF in the autumn of 2008 as the first country during the most recent financial crisis to request financial aid, the fund's new assessment of the instrument of capital controls became obvious. IMF proved to be a strong advocate of the instrument and adopted provisions on the use of strict capital controls to the provisions of Stand-By Arrangements. Between 2008 and 2010, a total of eighteen emerging and developing countries (including Brazil, Argentina, China, and Russia) imposed various forms and types of capital controls. Dominique Strauss-Kahn commented on Brazil's decision to control capital inflows by noting that "'I have no ideology on this'; capital controls are 'not something that come from hell'" (cited Grabel 2011: 816). Beginning in 2010, IMF staff wrote background research papers that legitimized capital controls as a means to prevent crisis and placed techniques of "capital flow management" in the same spectrum of instruments as the tariffs and regulatory measures used to secure financial stability (see Ostry et al. 2010; Ostry 2012). In preparation for the G20 Summit in Cannes in November 2011, a sub-working group of the G20 dealt with possible conditions for imposing capital controls. It appears that no concrete stipulations were drawn up at the time because the final declaration of the Cannes Summit does not include anything specific on the topic. Still, former French President Nicolas Sarkozy stated in his closing address at the summit that capital controls were now an acceptable instrument of stabilization (Gallagher 2011). In December 2012, the IMF executive board finally issued an "institutional view" on the topic, which addressed the risks that free flows of capital and premature liberalization posed to developing countries and emphasized the right of member states to limit cross-border flows of capital (IMF 2012). In April 2013, specific guidelines were issued to the staff on how to implement this view in the financial surveillance of IMF member states (Gallagher 2015).

Third-Order Change: Change of Hierarchies of Goals and Ideas

Finally, changes are also evident in the conceptual or interpretative framework upon which the use of policy instruments is based. Macroeconomic policy is considered fundamental for the creation of growth and jobs on the one hand and a prerequisite for the stability of the global financial system on the other. The cornerstones for this re-orientation were defined at the respective G20 summits. At the London G20 Summit in April 2009, the government heads agreed on a policy of coordinated fiscal stimuli aimed at boosting demand, growth, and job security (G20 2009a). These topics were introduced into the debates particularly by the U.S. and Great Britain but also by emerging markets like Argentina, which had experienced sharp declines in demand and in the level of exports (White House 2009). In order to stimulate demand, the available IMF funds were tripled, the Special Drawing Rights (SDRs) were redistributed, and last but not least, national stimulus packages were passed, the conditions of which remained at the discretion of each of the member states. Germany and France were thoroughly skeptical of an expansive fiscal policy but, in turn, managed to have their wish for a greater regulation of banks, hedge funds, and tax oases included in the leaders' summit agreement (Baldwin 2009). At the G20 summit in Pittsburg in September 2009, the participants reaffirmed their commitment to a framework for "strong, sustainable, and balanced growth." In part, this framework was to be made up of macroeconomic policies that boosted global demand and reduced the imbalances in development, while at the same time remained consistent with the aim to maintain price stability.[3] Furthermore, it was emphasized that fiscal stimuli were not to be ended too early, and the timing of exit strategies needed to be coordinated among the member states. Overall, the objective of fiscal, monetary, structural, trade, and regulatory policies was to produce sustainable and balanced growth. IMF was to advise and support these policies through its bi- and multi-lateral surveillance. Even at the subsequent summits right up to the G20 summit in Brisbane in November 2014, the government heads reaffirmed their commitment to the path taken: "Raising global growth to deliver better living standards and quality jobs for people across the world is our highest priority. . . . The global economy is being held back by a shortfall in demand, while addressing supply constraints is key to lifting potential growth. . . . We will ensure our macroeconomic policies are appropriate to support growth, strengthen demand and promote global rebalancing. We will continue to implement fiscal strategies flexibly, taking into account near-term economic conditions, while putting debt as a share of GDP on a sustainable path" (see G20 2014).

The economists on the IMF research staff have supported this programmatic reorientation toward a flexible Keynesianism and outlined new objectives, primarily with regard to the areas of monetary policy, fiscal policy, and regulation (Blanchard et al. 2010; Blanchard et al. 2013). In their view, *monetary policy* consists of more than mere anti-inflationary measures; it includes aspects that monitor growth and financial stability. Although a stable inflation rate is necessary, it is not seen as a sufficient condition for economic growth. Instead, the point is to weigh the costs and benefits of a higher inflation target. Central banks are attributed a fundamental role in the system that can include the provision of liquidity to governments and businesses in times of crisis. Respectively, the quantitative easing of monetary policy by way of low-interest policy, and the buying up of private and public bonds is viewed as a legitimate instrument of an anti-cyclical economic policy. As late as October 2013, IMF warned the U.S. Federal Reserve against ending its quantitative easing prematurely. Otherwise, negative spillover effects would threaten developing countries and emerging markets in the form of limited flows of capital (Wigglesworth 2013). To combat speculative bubbles and speculative attacks against currencies, it is recommended that capital controls be imposed.

Fiscal policy is basically seen as an instrument of macroeconomic management. In the case of crisis, IMF argues in favor of fiscal stimuli, especially when instruments of monetary policy to boost the economy have been exhausted. At the same time, IMF economists emphasize the importance of reducing budget deficits "under normal conditions," not the least so that it will be possible to build fiscal buffers against economic shocks. However, austerity is no longer seen necessarily as the means of choice on the path to growth and jobs. The pace of reducing national debt should be left up to each country to determine for itself, dependent on the state of its own public finances, the economy, and also the pressure of the financial markets (Blanchard et al. 2013; Giles 2013a; Giles 2013b).

Regulation of banks and financial markets, like monetary policy, should also reflect an awareness of the systemic and macroeconomic implications. Therefore, in the future, central banks should assume regulatory tasks while maintaining their independence from politics.

Dynamics and Forces of Change

On all three levels—that of economic policy ideas and hierarchies of aims, of economic instruments, and of their setting—it is evident overall that change is heading in the direction of a *flexible Keynesianism*, one which seeks to balance the needs to promote sustainable growth and to stabilize the financial system for the purpose of preventing crises. The latter manifests itself primarily in the introduction of new financing facilities geared at crisis prevention, the increase in the lending volume, or even the reassessment of the value of capital controls as instruments in preventive capital flow management. However, the movement

3. See section 14 of the preamble of G20 (2009b).

toward this new economic philosophy is uneven since it allows for differential adoption. Instruments of fiscal policy are used pragmatically according to the economic situation in each country to revive demand, boost the economy, or to combat inflation. The interests of developing countries and emerging markets are acknowledged through the introduction of non-concessional facilities or new "social conditionalities." The use of the Washington Consensus repertoire is not excluded but is made dependent on the individual economic situation of each country and its integration in the rest of the global economy.

Organizational transformation was spurred by both IMF staff and member states. The experts pushed processes of "first- and second-order change" relatively autonomously. They relied heavily on their experiences in handling past crises when they re-set existing instruments of policy and invented new guidelines. IMF's mandate is predominantly technical, which has allowed its staff and the IMF executive director substantial autonomy to gradually overhaul the conditionalities related to country lending (Lütz and Kranke 2014). At the same time, the member states were crucial to spur processes of "second- and third-order change." Member states' preferences to redesign lending instruments are shaped by their own state of economic development and need for capital injection, and by their experiences in handling certain policy instruments such as capital controls. Moreover, a state's ideological openness toward demand-based policy instruments will also determine its willingness to expand the policy repertoire. In general, preferences of developing, emerging, and developed countries in the wake of the financial crisis have triggered the differentiation of lending instruments described before. Third-order change of the underlying conceptual framework toward a flexible Keynesianism was particularly driven by the U.S., Great Britain, and the emerging markets. Continental European countries like Germany, with a highly regulatory and (price) stability-oriented economic philosophy and, in addition, an export-oriented economic model, are extremely skeptical of a policy of stimulating demand, possibly at the cost of higher wages and prices. This position has led to conflicts within the executive board time and again in recent years.[4] These findings echo other observations that Keynesian pragmatism and discretion are still alive in Britain and the U.S. but not in continental Europe. George Osborne, the UK chancellor after 2010, did not reverse the major stimulus and the bailouts that rescued the British financial system in 2008. Barack Obama went further in adding to the stimulus, but neither government offered an intellectual defense of its unwillingness to match the neoliberal rhetoric with policies to deliver it. In the Eurozone, a more Hayekian or ordo-liberal policy has been followed and supported by Germany, being reflected first and foremost in the fiscal compact. It reflects a stricter fiscal conservatism that imposes an unbreachable set of fiscal rules on permitted deficits on the Eurozone members, implying a deeply deflationary policy of austerity. According to Andrew Gamble, it is exactly this divergence between interpretations and practices of neoliberalism that demonstrates its flexibility and resilience (Gamble 2013: 72–5). I would argue, conversely, that G20 summit decisions leave room for some deviation in national solutions leading to a "flexible Keynesianism." Since the commitment to expansive macroeconomic policy is coupled with deals in other areas, then those skeptical member states will be willing to join the general consensus.

All in all, both staff- and state-centered perspectives are of explanatory value here. Constructivism would interpret the latitude and the learning processes of the research experts as important factors driving incremental change within the organization. According to rationalist principal-agent models, IMF management and staff benefit from informational advantages and partly heterogeneous preferences of its member state stakeholders. Thus, organizational slack and learning experiences would allow the fund's bureaucracy to redefine the organization's toolkit of instruments and ideas. At the same time, third-order change would not have been possible without the active support of the member states. The G20 decision to increase

4. See interview with Germany's representative on the IMF Executive Board, 8 September 2009.

IMF resources threefold in 2009 created the prerequisite for the further enlargement of the fund and, thus, a type of opportunity structure for learning processes. To focus here primarily on the U.S. or the G5 nations would, however, narrow our view far too much. Besides the U.S. and Great Britain, it has been the emerging countries like Brazil, India, or Argentina who have favored a policy to boost demand, growth, and job security with the help of fiscal stimuli. The greater weight of the emerging and developing countries in the decision-making processes of IMF is also evidenced by progress in the protracted efforts to reorder the distribution of votes and reform internal governance structure of the IMF (a topic that cannot be addressed extensively here).[5]

Conclusion

In general, the overall findings of this paper echo recent post-crisis research on reform politics emphasizing that incremental change prevails although the global financial crisis has truly confronted actors with an exogenous shock (Moschella and Tsingou 2013: 3; Vetterlein and Moschella 2014). In line with arguments brought forward by historical institutionalists (Streeck and Thelen 2005), it is argued that paradigm change is associated with incremental, endogenously driven dynamics. Radical transformation may, therefore, build on former experiences or even policy legacies and will result from the cumulative effects of small and incremental policy changes. With respect to IMF lending policy, we find a recalibration of funding instruments (Hall's first- and second-order change) and a changing hierarchy of goals behind the use of instruments (Hall's third-order change), all of which points toward a new economic paradigm. Despite this, I would argue this new paradigm has not been institutionalized in a way to establish new standard operating procedures (Hall 1993: 280–81) nor has it replaced the former Washington Consensus as economic philosophy and policy framework. As has been shown, even on the programmatic level, a third-order change of economic ideas has been uneven and incoherent ,since it allows for differential treatment of IMF member states and also for adoption of the Washington Consensus where it is considered appropriate (like in the Eurozone).

Hall's conceptual toolkit allows us to study dimensions of change (instruments, settings of instruments, and ideas behind them) that are in principle also applicable to an institutional environment such as an international organization. Hall was also correct to point out that first- and second-order change much relied on technocrats, whereas third-order change in Hall's case of British macroeconomic policy was promoted by politicians and societal actors, such as media and think tanks. In our case, it was primarily the technical expertise of IMF staff that allowed for gradual recalibration of policy instruments, whereas state decisions paved the way for ideological, third-level shifts.

However, Hall's analytical frame of reference provides shortcomings with regard to three dimensions: *First*, a proper assessment of organizational transformation would require studying several areas of IMF policy and activities, their potential interlinkages, and also the changing priorities among them. Andrew Baker, while applying Hall's framework to the macroprudential ideational shift in financial market regulation emphasized for instance the linkages between changes in different policy domains (such as macroeconomic policy and financial regulation) that might enhance each other or could be driven by different dynamics (Baker 2013). This paper has explored the field of lending policy as a crucial case for a potential paradigm shift, but further research on technical assistance, surveillance, and the range of related economic policies is needed.

5. Following the 2010 decision by the IMF Executive Board to introduce (as yet unimplemented) reform, the quota share of over- and under-represented countries would shift by 6 percent and the basis for calculating quotas and vote shares would also change. China, whose vote share would double to 6 percent, or even Brazil, whose vote share would lie at 2.2 percent, would profit from this. Following the implementation of the decisions, the developing countries, taken together, would have a vote share of 37 percent, which would greatly exceed that of the United States (16.5 percent) or that of the entire G7 nations (ca. 24 percent). Among the losers of the reform would be the European countries, which are thought to have been overrepresented until now, see IMF (2010).

Second, Hall's approach assumes a doctrine will also be practiced and there is no gap between the programmatic and the operational level. While it is beyond the scope of this paper to study organizational practice and the implementation of flexible Keynesianism across different lending programs, current research on the fund's post-crisis operational behavior points in different directions. A skeptical view stresses that, in implementing lending programs, the fund continues to focus on fighting inflation by means of restrictive monetary policy and on cutting government spending in order to create fiscal stability (Ramos and Roy 2012; Wayenberge et al. 2013). An interpretation would understand programmatic change as an initial step in the sweeping realization of the new paradigm also in the lending practice. The lending programs for European countries consist of familiar recipes for a pro-cyclical, macroeconomic adaptation of policy, including commitments to budget and spending cuts, the deregulation of job markets, or the privatization of the infrastructural sectors (Grabel 2011: 821). However, the conditionalities for the European countries are now determined in negotiations between the IMF, the European Commission, the European Central Bank (ECB), and the recipient countries. Time and again over the course of a country's program, IMF has demonstrated it is willing to grant the borrowing countries greater flexibility to achieve their subgoals than have the European Commission and the ECB. In the program for Latvia, IMF opted for temporarily higher deficit targets, for a longer transition period to consolidate budgets, and for the introduction of the Euro without immediate compliance to the Maastricht convergence criteria. On the other hand, the European Commission and the ECB demanded the adherence to orthodox austerity policy and proved to be the "rescuer of the Washington Consensus" (Lütz and Kranke 2012; Lütz and Kranke 2014).

Third, the reinforcement and institutionalization of a new paradigm would, according to Hall, require shifts in the locus of authority over policies. However, Hall does not specify where the authority needed for paradigm changes should be located. In our case of a transnational paradigm, transformation would need to be cultivated beyond the walls of the international organization in the broader political arena, in different global economic governance institutions or in professional networks. Ilene Grabel for instance, observes an increasing acceptance of heterodox concepts in the American field of economics, which could help diffuse this idea at American business schools and eventually also strengthen those economists at IMF who favor a heterodox approach to their field (Grabel 2013: 20–7). A study of the fund's interorganizational linkages and of its embeddedness in the broader organizational arena could shed light on the "speed and scope" (Vetterlein and Moschella 2014: 161) of its cultivation activities. So far, a movement toward a flexible Keynesianism is in progress while a paradigm change has not yet materialized.

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