

Change in IMF Policy Advice to North Africa after the Arab Uprisings

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The Arab uprisings lead the International Monetary Fund (IMF) to treat Egypt, Morocco, and Tunisia differently than it had in previous years. In response to the uprisings in these countries, the IMF has focused more sharply on the social dimensions of its macroeconomic policy advice. By incorporating organizational theory into our analysis, we can appreciate the exogenous and endogenous factors that produced the IMF's policy change. It appears that the fund had a number of norm entrepreneurs in the management team who noted the need for a paradigm change of fund thinking and a post-Arab uprising reflection on how the social dimension of IMF policy advice was overlooked. Specifically, the IMF has changed its policy advice concerning growth, inequality, and health and education spending.

Introduction

Across North Africa, feelings of discontent among the population had been on the rise throughout the 1990s and 2000s; it was not until late 2010 that political uprisings and social protests became more pronounced in the region. The Arab uprisings began in Tunisia and soon spread to Egypt. Both of these uprisings resulted in the fall of the entrenched presidencies of their respective countries. In countries like Morocco, constitutional reforms were put in place to heed off continued protests. It seemed as though the winds of political and economic change were about to sweep the Arab world, emanating from popular protests throughout North Africa. Did this seeming monumental moment lead international financial institutions like the IMF to treat and respond to these Arab countries differently than they had in previous years? This paper examines whether relations between the international financial institution and the three North African countries had been affected by the Arab uprisings. Specifically, we ask what degree of change and/or continuity may be observed in IMF policies toward Egypt, Tunisia, and Morocco.

A few years after the Arab uprisings, there is undoubtedly some pessimism about how far transitional countries can and will transform. Indeed, some have observed a retreat to authoritarian ways, particularly in Egypt. Although there remain far too many questions beyond the scope of this article as to what will happen next, the post-Arab uprising moment provides an interesting temporal period to study in the context of evaluating potential change of IMF policies in response to external political changes. One thing is for sure, for a few years after the Arab uprisings, the Arab people had sustained calls for a break with decades of authoritarianism, poverty, chronic unemployment, and social injustice. Among the populist slogans roared by the North African people, many were calling for better accountable governments, more economic growth, and wider distribution of wealth, as well as cleaner governments. Many international institutions and powerful Western states supported or championed this new “democratic turn” in Arab politics. The global mood, so to speak, was favorable to the Arab uprisings. This article, therefore, asks: “Did the IMF change its policy advice to these transitional governments in response to the Arab uprisings?”

This article provides a micro-level analysis into measuring the degree of change in IMF policy advice resulting from the Arab uprisings. To answer our central research question, we

look for a number of qualitative changes in the IMF's narrative and framing of its relationship with the three North African states and qualitative changes in the terms of IMF advice on economic policy captured in the annual Article IV consultation reports. To achieve these objectives, we use process tracing, qualitative content analysis, and discourse analysis. Specifically, we conduct a tracing of IMF policy advice given to the North African countries from the mid-2000s to 2013 to capture potential variation and changes in rhetoric, framing, and understanding of the economic conditions that provided the context for IMF policy advice. To achieve both ends, we use IMF official documents, such as annual Article IV Consultations, Regional Outlook Reports, and IMF media transcripts. Furthermore, we supplement these official records with personal interviews and secondary media reports.

Indeed, in order to put empirical teeth into an organizational study on policy change, it is useful to trace the process of internal decision making on the matter. In the case of the IMF, due to the retroactive nature of this study, participant observation was not possible. The best available methodology—that is, the methodology that would provide us the most detailed answers to our research question given the data available at hand—is the combined process tracing, qualitative content analysis, and discourse analysis we carried out on IMF staff and Executive Board documents, publicized press releases, and interviews with IMF staff members.

This comprehensive qualitative assessment provided us the context through which to trace how the fund processes decisions and policies at an organizational level, which in turn gives us a better understanding of how the IMF, as an institution, responds to change. Using this approach, we find observable changes in IMF policy advice toward Egypt, Morocco, and Tunisia that have occurred after the Arab uprisings. Our findings suggest the IMF changed its policy advice in response to the Arab uprisings in substantive ways on issues related to the social dimensions of economic policy. The analysis of this paper further elaborates on why perspectives changed at the IMF by looking at the role of ideational change among IMF staff.

Policy Change at the IMF

Much of the international politics literature has assumed the IMF is controlled by its key creditors, especially the U.S., which dictates policies that are favorable to their own economic interests (see Kapur 2000). In the case of the IMF, an overwhelming number of studies have argued that this international organization is an agent of an external principal. Usual suspects include the U.S., Western-liberal industrialized countries, systemic capitalist interests, or transnational corporations (Thacker 1999; Killick 1995; Peet 2003; Stone 2011). However, in searching for policy changes, realist approaches argue for a more dynamic process in which change in the nature of the international political system explains change within international organizations. As the global political environment had not changed, the chances of change within organizations like the IMF were highly unlikely (see Taylor 1987). For these realist theorists, international organizations are studied as “empty shells or impersonal policy machinery to be manipulated by other actors” and as having “no ontological independence” (Barnett and Finnemore 1999: 704).

For decades, these realist approaches have dominated the literature on international organizations until principal-agent theory and constructivism provided analytical space for academics to think of international organizations as sociopolitical contexts worth unpacking. This started with the seminal work of Barnett and Finnemore (2004) and was further studied and validated empirically by many other international organization (IO) scholars who decidedly went micro in their analysis to unpack IO policies and give IMF staff agency (see author 2004). After a decade of writings by numerous international organization scholars who have extensively documented policy changes in the IO, responding to both internal and external stimuli, realist theories have been seriously challenged (see volume by Park and Vetterlein). IO theorists have varied methodologies in approaching the study of international organizations. Nevertheless, a common thread among them is to give international organizations ontological

purpose. Consequently, IO theory has come to its own by looking at institutions, like the IMF, through critical lenses that do not presume that the fund is controlled by key creditors or other external and internal actors but rather as a place of political contestation and debate where the outcome of policies is not necessarily predictable.

To understand international organizations, including the prospects of policy change, IO scholars would be well served by examining the principles and observations from established organization theory. As David C. Ellis aptly contends:

IO scholars may be brought together by adopting a corporate paradigm of international organizations instead of a state-centric paradigm of international organizations. Moreover, IO scholars do not need to start from scratch in this endeavor. They may turn to Organization Theory for great insight into the internal workings of IOs. Although OT is confronted by its own epistemological difficulties, its ontology of organizations is superior to that adopted by IO scholars, and its levels of analysis are analogous to that of IO scholars. By adopting a corporate ontology of IOs, IO scholars may conceptualize IO agency and autonomy in more meaningful ways so that greater detail and insight comes from their research. With this movement, the decades-long return to interest in the internal working of IOs will lead to an appropriate and necessary organizational turn in International Organization. (26)

According to organizational theory, there are a series of exogenous and endogenous factors to international organizations that may induce organizational changes in perspectives and policies. Exogenous factors that may stimulate policy change in international organizations include structural changes in the international political and economic system, crises and disasters causing shocks to ripple in international organizations, competition between and among international organizations vying for additional jurisdictional turf, changes in international norms and values, and changes in attitudes and policies in the domestic polities of key international members (Kapur 1999: 8–18). Endogenous factors that may provoke change include dissent and conflict within an organization leaving an ideational vacuum, positive leadership with new vision that gains the trust of staff, powerful leaders that co-opt energy-driven individuals that agree to change, and an internal paradigm shift that changes the *raison d'être* of an organization (Bennis 2000). Finnemore and Sikkink (1998) add that a key element of securing organizational change in perspectives and policies is to have “norm entrepreneurs” spearheading change both within and outside of the organization. These norm entrepreneurs are dissatisfied with the status quo and seek some form of change.

Similarly, there is a series of exogenous and endogenous factors to international organizations that may resist organizational change in perspectives and policies. Exogenous factors that may resist change include the veto power held by states and other international organizations, denial of financial resources to implement change by external actors and ideological and norm change resistance outside of the organization. Arguably more important, there are endogenous factors that resist organizational change, given “the sociology of institutions is fundamentally *antichange*” (Bennis 2000: 492 emphasis added). Simply put, organizations are comprised of individual personalities and vested interests. Consequently, “organizations resist change because people resist change” (Heffron 1989: 154).

Organization theorists contend that staff often resist change because they fear the unknown, have selective attention and retention to new information, prefer habit and routine, need security of the known, and feel threatened by change (Trice and Beyer 1993: 393–428). At the group level, organizations resist change because there is a lack of trust, differing perceptions and goals, social disruption with change, a limitation of resources to devote to change and, most importantly, change requires a change in an embedded organizational culture (Ibid.). Organizational theory expects that in the process of introducing policy changes, organizations set ideal standards and goals, but often end up with solutions that effectively satisfy all vested interests in the organizations.

IMF Policy Advice to North Africa: The Social Dimension after the Arab Uprisings

This section looks at qualitative evidence to examine for possible variation of IMF policy advice toward three case countries that were affected by the Arab uprisings. As our tables in the Appendix demonstrate, in all three North African countries there are visible changes concerning the social dimension of IMF economic advice.

Prior to the Arab uprisings, numerous studies documented how the IMF staff had a difficult time assessing the impact of IMF policies on what it calls the “social dimension”—this includes policies affecting poverty, equity concerns, unemployment, and provision of social services like health and education. The internal rethinking of IMF policies toward the social dimension began in the early 1990s under the former managing director Michel Camdessus, who once noted that “we [at the IMF] are striving to improve the design of our programs to ensure a better blend of adjustment, growth, and equity and, in particular, to ensure that the plight of the poor is properly recognized” (Camdessus 1990: 11). The goal was “high-quality growth” whereby the fund would maintain its objective of designing programs that promoted overall economic growth, but these programs would be mindful of and steer away from potentially negative social and distributional effects (Ibid.). For the first time, Camdessus brought equity concerns onto the IMF agenda, marking a change in previous internal arguments that the IMF staff had no business in what had been considered a sovereign matter of its member states. Camdessus’ view of how to improve equity was starting to align with the World Bank’s view that spurring economic growth was part of the remedy to inequality. One year after introducing the term “high-quality growth” into fund parlance, all IMF department heads were told to consider the effect of IMF programs on the poor in all IMF lending programs (Boughton 2001: 698, fn 144). Management’s emphasis on “high-quality growth” made poverty reduction and economic growth conceptually inseparable in the 1990s (IEO 2007: 33).

Despite having a managing director be a norm champion of policy changes about the social dimension of the fund’s economic policy advice throughout the 1990s, IMF staff did not internalize these changes for several years. Fund research papers written by IMF staff after Camdessus had often argued that it was objectively difficult to carry out social impact studies of IMF policies and advice given the lack of data (Momani 2010). Moreover, the IMF had pointed out there were a number of counterfactual arguments that could be made to explain why IMF programs produced negative social costs; in particular, the lack of implementation or government “slippage,” the short-sighted nature of measuring social costs, the condition of borrowing countries before taking on fund loans, and global economic pressures (Ibid.). Despite mandated self-reflection by fund management, however, IMF staff tended to avoid using the terms “poverty” and “inequality” as social factors. Instead, economic growth and income distribution were discussed in macroeconomic terms (Vetterlein 2008).

Our research suggests the IMF, in response to the Arab uprisings, had another moment of truth where its views on the impact of its policies on the social dimension had altered its perspective on economic advice to Egypt, Morocco, and Tunisia. To emphasize, our paper does *not* argue that IMF policy has changed. Rather, we trace how the IMF’s perspective on its policy prescriptions is itself undergoing change. Specifically, IMF policy advice was visibly different in inclusive growth, redistribution and inequality, and emphasis on health and education spending. As supported by the tables in the Appendix, the following section is divided into three chronologically organized subsections that make reference to IMF staff reports and news articles in order to show the IMF has indeed changed its discourse and thinking on these more populist topics, and, as we posit, it has done so in response to the Arab uprisings.

Inclusive Growth

The term “inclusive growth” refers to economic growth that is “sustainable and effective in reducing poverty.” Used in this context, the concept of inclusiveness comprises “equity, equality of opportunity, and protection in market and employment transitions.” Prior to Arab

Spring, the term inclusive growth was completely absent from the IMF's communications with, and objectives in, Egypt, Morocco, and Tunisia. Instead, the fund advocated a simpler, less-qualified approach to growth that did not prioritize inclusiveness. Rather than prioritizing inclusiveness alongside economic growth, the IMF's previous approach viewed "growth" and "inclusiveness" as two distinct variables. Although the term "inclusive" was formerly absent from the IMF's lexicon, the IMF's use of related terminology indicates that it actually viewed "growth" and socioeconomic "inclusion" as independent and dependent variables, respectively (Momani 2010).

To illustrate, following a visit to Morocco in 2006, Agustín Carstens, former IMF deputy managing director, publicly stated that for Moroccans "a significant acceleration of growth is required in order to enable a more rapid job creation and improvement in the standard of living" (IMF 2006d). Carstens's comments indicate the IMF's perception of a dependent relationship between growth and socioeconomic inclusion. Similarly, in 2007, former IMF Deputy Managing Director Murilo Portugal made comments about Tunisia that paralleled those of Carstens's. Portugal stated that the main challenge for Tunisia and the other Maghreb countries was "to reach an even higher sustained growth path that would enable the region to reduce the still high unemployment rates and raise living standards faster" (IMF 2007b). Here, it is clear that Carstens and Portugal viewed economic growth as a precursor to improving living standards. In this approach, the concept of inclusiveness is not a central issue, because accelerated growth is assumed to improve living standards, which implies less poverty and more prosperity for all. Thus growth, without qualification or exception, was the primary objective.

Consistent with this line of thought, the IMF regularly championed unqualified fiscal consolidation. In 2006, the IMF advised the Moroccan government to "take advantage of the favorable economic environment to pursue a more rapid pace of fiscal consolidation, which remains a key objective to support strong and sustainable growth" (IMF 2006b). Here, the IMF viewed unqualified consolidation as a precursor to "sustainable growth." Similarly, in 2006, the IMF advised Egyptian authorities that "fiscal consolidation is central to achieving [their] growth objectives (IMF 2006a). Yet these pro-consolidation arguments offered no qualifications or conditions. The IMF's prescriptions for fiscal consolidation were not particularly concerned with social outcomes. Moreover, they were equally unconcerned with human capital development and aggregate demand management. To borrow the language of Paul Krugman, "It was simply assumed that these countries could be run like companies" (Krugman 1996). Prior to 2011, neither consolidation nor growth strategies were guided fundamentally by societal objectives. This fact contrasts sharply with events in the post-Arab uprising era (1996).

Since 2011, the IMF has adopted a new approach to growth in Egypt, Morocco, and Tunisia. The IMF now views inclusiveness and improved livelihoods as intrinsic features of its growth strategies. A statement made by Masood Ahmed, IMF director of the Middle East and Central Asia Department, leaves little doubt that the Arab Spring propelled the IMF toward its new perspective on inclusiveness. In February 2011, Ahmed explained, "The recent events [in Tunisia, Egypt, and across the Middle East] brought into sharp focus the need for more inclusive growth and better governance" (IMF 2011a). A recent IMF report on Morocco elaborated the reasoning behind the IMF's new support for inclusiveness. The report explains:

Addressing inclusiveness in growth is not only important for redistributive purposes and to ensure social cohesion, but also because non-inclusiveness can have detrimental effects on economic activity and macroeconomic stability through a number of economic, social, and political channels. (IMF 2013)

Following up on the February comments, Ahmed said in October 2011 that "measures aimed at restoring confidence and fostering more inclusive growth will help [Middle Eastern] countries enhance activity and ultimately address the needs of the population" (IMF 2012a). In contrast to Carstens and Portugal's remarks made in 2006 and 2007, respectively, Ahmed's

2011 statements indicated that inclusiveness and “the needs of the population” are central tenets of a growth strategy.

The IMF now explicitly advocates inclusive growth. In September 2012, IMF staff advised the Tunisian government to “lay the ground for a comprehensive set of reforms to achieve higher and more inclusive growth and reduce unemployment in a sustainable way” (IMF 2012e). The new emphasis on inclusive growth brings with it a stronger emphasis on human capital development and financial inclusion. In December 2012, IMF staff member Jean-François Dauphin argued that Morocco was in need of structural measures to promote investment in human capital as part of a strategy to realize higher, more inclusive growth (IMF 2012d). Moreover, an April 2013 IMF report advised Egyptian authorities to improve access to financing, particularly for small enterprises (IMF 2012a). Today, the IMF’s language and policy recommendations significantly diverge from the pre-2011 era. The concepts of socioeconomic inclusion, human capital development, and financial inclusion are now embedded in growth strategies. In short, economic policies are now guided by societal objectives. Again, this contrasts sharply with Carstens’s and Portugal’s earlier comments, which viewed economic growth and socioeconomic inclusion as entirely separate variables. As the table in the Appendix shows, there are marked differences in the IMF approach to all three countries in regard to inclusive growth.

Redistribution and Inequality

The second category in which the IMF has changed its policy advice concerns inequality and redistributive policies. Before the Arab uprisings, IMF staff did not make explicit recommendations to address inequality or to enhance redistributive policies. Additionally, on some occasions IMF staff advocated fiscal tightening which, without qualification, was likely to exacerbate socioeconomic inequalities. However, in the wake of the Arab uprisings, IMF staff made explicit recommendations to address inequality and to enhance redistributive policies. Moreover, following the Arab uprisings, IMF staff have attached crucial qualifiers to their recommendations. Tracing the IMF staff’s recommendations and appraisals of policies in Egypt, Morocco, and Tunisia from 2006 supports this claim.

In 2006, the IMF’s staff reports on Egypt, Morocco, and Tunisia made zero recommendations to address inequality or to enhance redistributive policy (IMF 2006ace). The same holds true for 2007 (IMF 2007acd). In that year, IMF staff recommended fiscal consolidation without attaching conditions, such as protecting the poor from the negative impacts of consolidation. In its 2007 staff report for Egypt, IMF staff wrote, “Achieving the short and medium-term fiscal targets will require policy measures such as forceful reductions in energy subsidies . . . [and] continued retrenchment in the wage bill” (IMF 2007a). IMF staff made similar recommendations in its 2007 report on Tunisia. “Further consolidation is necessary to maintain long-term fiscal sustainability” (IMF 2007d). To be certain, the IMF still advocates fiscal consolidation for highly indebted countries and it continues to criticize Egypt’s energy subsidies today. There is an important difference between the IMF’s positions before and after the Arab uprisings. In the wake of the Arab uprisings, the IMF now accompanies its pro-consolidation strategies with recommendations to protect the poor from the negative impacts of consolidation.

Consistent with previous years, IMF staff made no recommendations to address inequality or to enhance redistributive policy for our case countries in 2008 and 2009. It was only in 2010, just as unrest was beginning to brew in the Arab Spring countries, that the IMF began to change its language on inequality and redistribution. Although there was no staff report for Morocco in 2010, IMF staff advised the Tunisian government that the “key pillars” of its effort to reduce public debt should include “better targeting of transfers and subsidies to the most needy” (IMF 2010c). IMF staff gave the same advice to Egyptian authorities in 2010. In that year, IMF staff wrote that “priorities [for reducing Egypt’s fiscal deficit] include . . . complementing energy subsidy reform with better-targeted transfers to the most needy” (IMF 2010a).

Although IMF staff changed the IMF's language in 2010, it was only in 2011 that staff began to make explicit recommendations to address inequality and to enhance redistributive policy. There were no staff reports for Tunisia and Egypt in 2011, but IMF Director Masood Ahmed made comments that indicate a stark contrast with the IMF's previous strategies. In 2011, Ahmed said of the MENA region: "In our view, it is crucial that governments help poor households, and even more so during difficult periods" (IMF 2011a). In the same interview, Ahmed said of Tunisia: "[In] going forward . . . and [recognizing] the full potential of the Tunisian economy, there will be a need for programs to enhance job-creating and inclusive growth, and to design *a well-targeted social safety net that would protect the most needy, especially in difficult times*" (IMF 2011a, emphasis added). Here, there is a distinct change in tone. Protecting the needy had not previously been a central feature of the IMF's recommendations. IMF staff took the same position in the 2011 staff report for Morocco: "A well-targeted subsidy system will be less costly and would better support the poor . . . [and] universal subsidies should be replaced by targeted transfers, which would allow for more effective social spending, providing more room for social protection and health and education spending" (IMF 2011b). Here, IMF staff explicitly acknowledge the need for enhancing redistributive policies and provide more nuanced critiques of subsidies, which now attach key qualifications such as protecting the poor.

In 2012, trends toward addressing inequality and enhancing redistributive policies became more pronounced. An excerpt taken from the IMF's 2012 staff report on Tunisia shows a significant departure from the IMF's previous positions:

Addressing pockets of poverty and implementing targeted policies to protect the most vulnerable groups in the population will be needed. Revised poverty estimates indicate that poverty rates and inequality are higher than previously stated, in particular in the underdeveloped regions of the interior. At the same time, improving the quality of spending—by putting in place a targeted social safety net and shifting budgetary resources to infrastructure investment, education, and health—*should improve growth prospects and social outcomes*. (IMF 2012e, emphasis added)

This excerpt contains two key highlights. The first is the IMF's explicit consideration for inequality. Although the IMF had previously focused on raising living standards, it did not explicitly consider inequality before the Arab uprisings. The second highlight is the IMF's advocacy for redistributive policies to improve both growth prospects and social outcomes. In 2012, the IMF's staff report for Morocco echoed these policy recommendations. In that report, IMF staff welcomed the Moroccan government's plan to implement "transfers targeting the poorest segments of society and possibly the lower middle class" (IMF 2012b). These positions contrast sharply with the IMF's previous positions, which did not explicitly favor or advocate policies to address inequality or to enhance redistributive policy. There was no staff report for Egypt in 2012.

The trend continued in 2013. In that year, IMF staff wrote that one of the "most immediate challenges" for Egypt is to "protect the most vulnerable segments of the population" (IMF 2012a). In the same year, IMF issued explicit policy recommendations to reduce income inequality in Morocco (IMF 2013). According to IMF staff:

Reducing income inequality would require strengthening redistribution policies. For this purpose, a reallocation of government spending would be needed to free resources for the social sector. The increase of the budgetary resources in the social sector could be obtained through reforming the current subsidy scheme, and redirecting savings from this reform to well-targeted social programs. Increasing social expenditure for disadvantaged groups would allow reducing inequality and sustaining demand in the short/medium-term. (IMF 2013: 14)

In the above quote, IMF staff are explicitly recommending redistributive policies to address income inequality in Morocco. IMF staff made similar remarks for Tunisia. "Generating higher and more inclusive growth to absorb high unemployment and reduce social and eco-

conomic disparities across regions is the key challenge for Tunisia” (IMF 2012a). Here, the IMF views inclusive growth as the means to the ends of reducing social and economic inequality.

In 2013, Adnan Mazarei, deputy director of the Middle East and Central Asia Department, argued that Egypt’s fuel subsidies were regressive and should be replaced by well-targeted transfers to benefit the poor (The New America Foundation 2013). Mazarei said that replacing fuel subsidies, which primarily benefit the affluent, with strong “social safety nets” for the poor would result in a redistribution of wealth that would in turn help to mitigate potential social unrest resulting from subsidy reform (The New America Foundation 2013). Regarding the IMF’s apparent departure with its pre-Arab Spring perspectives, Mazarei stated, “The world is changing, and we [the IMF] have to change with it . . . we discuss issues and concerns with NGOs, but we feel and they feel we need to do a better job” (The New America Foundation 2013).

Strengthening Education and Health Services and Spending

The third category in which the IMF has changed its policy advice is education and health policy. Tracing the recent history of international relations between the IMF and our case countries reveals a change in attitudes toward government spending on health and education programs in the wake of the Arab Spring. Specifically, there has been a significant change in the IMF’s language and policy recommendations regarding health and education spending and services. Whereas before 2011, the IMF was scarcely concerned with expanding health and education spending and services, it now makes explicit recommendations to expand health and education spending and services. An examination of the IMF’s staff reports for our three case countries, dating back to 2006, supports this proposition.

In the IMF’s 2006 staff reports on the Article IV consultations with Egypt, Morocco, and Tunisia, IMF staff made zero recommendations to expand health and/or education services (IMF 2006ace). The same holds for 2007 (IMF 2007acd) and 2008 (IMF 2008; IMF 2009ab). In fact, in 2008, IMF staff issued a warning *against* Egypt’s proposed expansion of health care services, which the IMF said would “pose a significant burden on the budget” (IMF 2009a: 14). In 2009, IMF staff again made no recommendations to expand health and/or education services in Tunisia (IMF 2009b). In the same year, although IMF staff noted that strengthening education and health services would be important for improving Morocco’s social indicators (IMF 2010b), staff did not explicitly recommend *expanding* services or spending. There was no 2009 staff report for Egypt.

In 2010, the IMF again made no recommendations to expand health and/or education services for Egypt (IMF 2010a) and Tunisia (IMF 2010c). In contrast, IMF staff prioritized *containing* the cost of pension and health expenditures in Egypt (IMF 2010a). There was no 2010 staff report for Morocco. However, in 2011, the story changed dramatically. Staff reports for all three countries began to advocate expansionary health and education programs. For example, in 2011, IMF staff made recommendations to Moroccan authorities to help officials allocate funds for universal health care and education (IMF 2011b). Also in 2012, the IMF greatly emphasized health and education spending as key contributors to inclusive growth, which it now viewed as a priority for Morocco (IMF 2012b). In the same year, Jean-Francois Dauphin, division chief of the IMF’s Middle East and Central Asia Department, argued that Morocco should ramp up its efforts to improve social indices, such as the illiteracy rate, and expand access to health services and education (*Morocco World News* 2012). For Dauphin, structural reforms capable of freeing up funds to improve social protection and invest more in human capital were now crucial to the viability of Morocco’s public finances (*Morocco World News* 2012).

A similar story unfolded for Tunisia. In 2012, IMF staff said that health and education were now “priority spending” for Tunisia (IMF 2012e). The IMF advocated the use of public funds for “enhancing vocational training” to address skill mismatches among Tunisia’s labor force (IMF 2012e). In the same year, IMF staff advised Tunisian authorities to reform the country’s subsidy system and argued such reforms could make room in the government’s bud-

get to reallocate fiscal resources for expanding infrastructure, health, and education outlays, which would better address “social demands” (IMF 2012e). Here, the IMF’s use of the term “social demands” is critical. It reflects a change in both the IMF’s language and approach to economic policy making. Instead of advocating unqualified macroeconomic growth to resolve social problems, the approach is now to more explicitly embed social demands into economic policy making.

The trend continued in 2013. In that year, IMF staff recommended “shifting budgetary resources to infrastructure investment, education, and health . . . [and] improve growth prospects and social outcomes” (IMF 2012a) for Egypt. Here, the IMF advocated education and health spending as antecedents to economic growth. This contrasts sharply with the IMF’s previous approaches to growth in our case countries, which supported fiscal consolidation as an antecedent to economic growth (IMF 2006b). Also in 2013, IMF staff advocated policies to improve the quality of, and access to, health services in Morocco (IMF 2013).

Analyzing IMF Policy Change

By incorporating organizational theory into our analysis, we can appreciate the dynamics that produced the IMF’s policy change. To the extent that we can attribute the IMF’s shift in discourse to any overarching force it would be, in fact, change as it emerged from the series of exogenous and endogenous factors that arose in the aftermath of the Arab uprising throughout the three countries under study.

On the internal front, it appears that the fund had a number of norm entrepreneurs, such as Christine Lagarde, Nehmat Shafik, and Masood Ahmed in the management team who noted the need for a paradigm change of IMF thinking and a post-Arab uprising reflection on how the social dimension of IMF policy advice was overlooked. However, unlike in the 1990s when former managing director Camdessus tried to mandate high-quality growth, we also see a supportive and enabled staff that was motivated to change policy course following the Arab uprisings in Egypt, Tunisia, and Morocco. Furthermore, the fund had a supportive external political environment where powerful G8 states wanted to support the Arab countries after their uprisings through the Deauville Partnership. These factors are further elaborated in this section.

To begin, we found a great deal of evidence of positive leadership from IMF management who articulated a need for an internal paradigm shift as a result of the Arab uprisings. In a speech hosted by the Safadi Foundation at the Woodrow Wilson Center in Washington, D.C., in December of 2011, IMF Managing Director Christine Lagarde noted:

We all learned some important lessons from the Arab Spring. While the top-line economic numbers—on growth, for example—often looked good, too many people were being left out. And, speaking for the IMF, while we certainly warned about the ticking time bomb of high youth unemployment in the region, we did not fully anticipate the consequences of unequal access to opportunities. Let me be frank: we were not paying enough attention to how the fruits of economic growth were being shared. It is now much clearer that more equal societies are associated with greater economic stability and more sustained growth. While each country in the region must find its own path to change, the over-arching economic goals of the Arab Spring remain clear—higher growth, growth that creates more jobs, and growth that is shared equitably among all strands of society. (IMF 2011c, emphasis added)

Lagarde’s remarks reflect the IMF’s increased sensitivity and appreciation of the social dimensions of its policy design following the events of the Arab Uprisings. Similarly, in 2011, the Masood Ahmed stated:

We are witnessing an historic shift in the Middle East and North Africa (MENA). It is clear that the popular uprisings that began 10 months ago were born of a desire for greater freedom and for a more widespread and fairer distribution of economic opportu-

nities. . . . Like others, we had pointed to the ticking time bomb of high unemployment, but *we did not anticipate the consequences of the unequal access to opportunities*. We had focused our efforts on helping countries in the region build solid macroeconomic foundations, liberalize economic activity, and introduce market-based reforms that would generate higher economic growth. IMF lending, policy advice, and technical assistance have indeed contributed to improving the economic indicators of many countries in the region. However, with hindsight, it is clear that *we were not paying enough attention to how the benefits of economic growth were being shared*. (Ahmed 2011, emphasis added)

Moreover, speaking at a news conference during his visit to Tunisia in November 2012, David Lipton, first deputy managing director of the IMF, stated in light of high unemployment rates of Arab youth and the resulting social turmoil that ensued during the Arab uprisings, “The time has come to implement reforms that can deliver higher and more inclusive growth and create new jobs for millions of people” (*Al-Arabiya News* 2012).

Similarly, in her remarks at Arab Economic Forum in Beirut in May of 2012 regarding the current political and economic realities of the MENA region, IMF Deputy Managing Director Nemat Shafik noted how the IMF needed to change its policies:

For its part, the IMF is not sparing any efforts to support homegrown reform agendas [in Arab transition countries]. We are helping on three main fronts: Policy advice, capacity building, and financing. On policy advice, *we have adapted our analytical work to face the new realities* on the ground. The IMF is integrating the concept of inclusive growth more systematically in its policy advice and capacity building. We are focused on five areas critical to achieving more socially inclusive growth than in the past—job creation, better-targeted social safety nets, strong governance and business environments, access to finance, and greater trade access and integration. (IMF 2012e, emphasis added)

Shafik also remained optimistic about the outcome of the Arab Spring, while also highlighting the need for a more substantive policy approach in order to ensure economic and political stability in the MENA region. Shafik reiterated these views in 2012: “The uprisings that spread across the Middle East and North Africa in 2011 *taught us* that even rapid economic growth cannot be maintained unless it is inclusive, creates enough jobs for the growing labor force, and is accompanied by policies that protect the most vulnerable. And the absence of transparent and fair rules of the game will inevitably undermine the development process” (Shafik 2012, emphasis added).

Again, the above statements of key members of the IMF management team were further supported by a supportive IMF staff. In personal interviews with IMF staff members, we see evidence of this rethinking on the social dimension of fund policies. One IMF staff member, for example, stated:

Tunisia, just before the [Arab] Spring, we had an Article IV report that everything was glowing, and then it falls apart. If we had talked to CSOs [civil society organizations] would we have known? No one saw it falling apart the way it did but we would have heard different things. Good [IMF staff] have been doing this all along. They get their economists out and they visit factories and they see something real, but there’s this idea that we’re macroeconomists and we just don’t do that, and that’s just wrong. (Interview 18 March 2013)

With support from management and an internalization of this shift in views among staff, there remains the question, “Why now?” Here, we found a number of themes from staff members’ interviews. One staff member noted, “The world out there has changed. One, staff has to realize that they don’t know much about the world. Two, decision making is becoming more pluralistic. Now you have to go out and explain things and moderate” (Interview 18 March 2013). This was echoed by another staff member who, noted:

We’re [IMF] an organization that realizes that the world is much more integrated. Information is everywhere and before we had this sort of vertical way of looking at the world where

we were at the top looking at the finance and central bank where policies were implemented and nobody else really had a voice. Now it's much more horizontal and much more integrated and everybody has a voice, and we have to be able to hear those voices. We can't just communicate "at," we have to communicate "with." (Interview 19 March 2013)

Similarly, underscoring the changes that the IMF has undergone in recent years, the IMF's Masood Ahmed also stated in an interview in Dubai in May 2013, that "*the IMF itself today is not the IMF that many countries remember from the 1990s*. Every country has to find its own way and the IMF has to work with them to ensure that the policies that they are implementing meet the objectives that we and they share" (Shahine and Rastello 2013, emphasis added).

Finally, in an interview during the 2013 World Economic Forum conference on the Middle East and North Africa, Ahmed stated that as the consequences of the Arab uprisings continue to manifest themselves, "The big challenge . . . is to manage the expectation of an increasingly impatient population to undertake the measures that will stabilize the economy and would begin to lay the foundations of an economic transformation that would generate *more job creating and inclusive growth*" (Al-Khalidi 2013, emphasis added).

What is more, Lagarde has noted that in order to promote real political, economic, and social change, the countries of the Arab Spring must have the "firm support of the international community" (United Press International 2014). Here we have seen external support for Arab transition countries in the form of the Deauville Partnership. The Deauville Partnership was initiated by the G8 members on 26–27 May 2011 to connect its developed economies with Arab countries undergoing the political and economic transition to good governance and inclusive economic growth. The Deauville Partnership envisioned the development of economic cooperation to assist Arab governments undergoing rapid social and political transitions. The IMF and the World Bank were further tasked with assessing the MENA region in order to help G8 members formulate coordinated economic policies with an expanded list of partner countries—namely, Egypt, Tunisia, Libya, Jordan, and Morocco. The fund recommended a greater emphasis on the social dimension and suggested this be further seized upon with good governance, coordinated economic and foreign donor policies, and stronger intra-regional economic integration and coordination under the auspices of the G8. Supported by IMF studies, there was G8 acceptance of fund recommendations for inclusive economic growth that considered the social dimension of IMF economic policy advice. The G8 continued to endorse IMF policies and ideas on ways to promote better policy reform in the Arab countries experiencing uprisings.

Moving Forward: IMF Relations with Arab Transition Countries

Although IMF policy advice now focuses on inclusive growth, inequality, and health and education spending, its advice on improving these social dimensions remains vague compared to its advice on other topics such as financial, monetary, and broader fiscal policy. For instance, the IMF often identifies specific targets for inflation management and deficit reduction and assesses countries' banking sectors against specific capital and liquidity ratios outlined by the Basel Accords. IMF staff do not identify such specific targets for achieving inclusive growth, improving health and education outcomes, and reducing inequality. Nor do they assess governments' performance in these areas against benchmarks. These ambiguities leave room for doubt about the IMF's commitment to improving the social aspects of economic policy.

Although the IMF has sharpened its focus on the social dimension of economic policy, the fund's narrow scope of expertise impedes its ability to deliver well-rounded policy advice. The IMF typically recruits only economics graduates, hiring almost exclusively those with backgrounds in macroeconomics, international economics, monetary economics, public finance, econometrics, and financial economics. This is understandable given that the IMF has historically focused primarily on financial and macroeconomic policies, while providing less attention to the social dimensions of policy outcomes. With its recent emphasis on inclusive

growth, enhanced health and education outcomes, and reducing inequality, the IMF should possess a more diverse range of expertise.

To reinforce its commitment to improving the social implications of macroeconomic policy IMF staff may wish to consider the following policy recommendations: First, the IMF should develop more specific and tangible policy advice for countries to achieve inclusive growth, reduce inequality, and improve health and education outcomes. The IMF could lend its technical expertise to governments by advising them not only that they should improve performance on social dimensions but also how they might do so. For instance, in developing policy advice to catalyze inclusive growth in a particular country, the IMF could draw lessons from other countries and other organizations, such as the World Bank and United Nations, who both have longer histories in dealing with the social dimensions under consideration.

Second, the fund could also identify specific targets for achieving inclusive growth, improving health and education outcomes, and reducing inequality. Such targets could include country and region-specific Gini coefficient improvements and customized healthcare and education benchmarks. Setting specific targets and drawing from other experience to achieve those targets could enable the Fund to have a more robust impact on the social dimensions of policy formation.

If the IMF wants to further achieve inclusive growth, reduce inequality, and improve health and education outcomes, then it should diversify its expertise. Rather than recruiting almost exclusively economists, the IMF should recruit analysts whose expertise lies in other branches of economics and social sciences.

Third, recruiting development economists, health economists, and other social scientists whose expertise focuses squarely on the social dimensions and impact of public policy would strengthen the fund's ability to improve social outcomes. This proposed diversification of expertise could take the form of a special new division of staff responsible for assessing the social implications of fund policy strategies. Alternatively, it could simply mean the IMF brings alternative perspectives into existing divisions/departments, which would create a multidisciplinary approach to policy analysis and development.

Conclusion

In contrast to rationalist approaches that view international organizations as “empty shells” affected by outside actors, understanding how organizations such as the IMF respond to change from within and without provides a more nuanced and contextualized paradigm from which we may begin to trace the forces that lead to such change, and, perhaps more importantly, to put forth policy recommendations that effectively respond to key shifts in the global political environment.

By using process tracing with internal IMF documents and media reports, we were able to discern the IMF policy advice to Morocco, Tunisia, and Egypt. In all three cases there were visible differences in the type of economic policy advice prescribed to the three North African states. Specifically, there were visible differences in the social dimension of economic advice, in three issue areas: inclusive growth, redistribution and inequality, and an emphasis on health and education spending. The IMF has become more sensitive to the social and populist revolutions of the Arab world and has changed its policy advice to reflect this sensitivity. The IMF's greater emphasis on the social dimensions of economic policy is a welcome transition. There are several areas of ongoing concern that could hinder the fund's commitment to improving the social dimension of its policies.

In response to the uprisings in Egypt, Morocco, and Tunisia, IMF staff members have changed their perspectives and language regarding the social dimensions of economic policy. By incorporating organizational theory into our analysis, we can appreciate the exogenous and endogenous factors that produced the IMF's policy change. It appears that the fund had a number of norm entrepreneurs, such as Christine Lagarde, Nehmat Shafik, and Masood Ahmed in

the management team who noted the need for an IMF paradigm change of thinking and a post-Arab uprising reflection on how the social dimension of IMF policy advice was overlooked.

In the wake of the uprisings, the IMF now explicitly promotes inclusive growth, reduced inequality, and increased attention and spending on health and education services. Although this change is laudable, there is room for improvement. The IMF could reinforce its commitment to improving the social dimensions of public policy by offering more tangible policy advice for governments to achieve inclusive growth, reduced inequality, and to improve health and education outcomes. The fund should also consider broadening the scope of its expertise. By implementing real change in the three issue-areas explored in this paper, the IMF would be better positioned to deliver on its commitment to improving the social outcomes of economic policy.

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