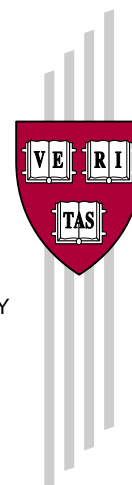


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## **G-24 Discussion Paper Series**

# **Organizational Reform and the Expansion of the South's Voice at the Fund**

**Peter Evans and Martha Finnemore**

*No. 15, December 2001*

**UNITED NATIONS CONFERENCE ON  
TRADE AND DEVELOPMENT**

**CENTER FOR INTERNATIONAL DEVELOPMENT  
HARVARD UNIVERSITY**

***G-24 Discussion Paper Series***

**Research papers for the Intergovernmental Group of Twenty-Four  
on International Monetary Affairs**



**UNITED NATIONS**

New York and Geneva, December 2001

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UNCTAD/GDS/MDPB/G24/15

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UNITED NATIONS PUBLICATION

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## PREFACE

The *G-24 Discussion Paper Series* is a collection of research papers prepared under the UNCTAD Project of Technical Support to the Intergovernmental Group of Twenty-Four on International Monetary Affairs (G-24). The G-24 was established in 1971 with a view to increasing the analytical capacity and the negotiating strength of the developing countries in discussions and negotiations in the international financial institutions. The G-24 is the only formal developing-country grouping within the IMF and the World Bank. Its meetings are open to all developing countries.

The G-24 Project, which is administered by UNCTAD's Macroeconomic and Development Policies Branch, aims at enhancing the understanding of policy makers in developing countries of the complex issues in the international monetary and financial system, and at raising awareness outside developing countries of the need to introduce a development dimension into the discussion of international financial and institutional reform.

The research carried out under the project is coordinated by Professor Dani Rodrik, John F. Kennedy School of Government, Harvard University. The research papers are discussed among experts and policy makers at the meetings of the G-24 Technical Group, and provide inputs to the meetings of the G-24 Ministers and Deputies in their preparations for negotiations and discussions in the framework of the IMF's International Monetary and Financial Committee (formerly Interim Committee) and the Joint IMF/IBRD Development Committee, as well as in other forums. Previously, the research papers for the G-24 were published by UNCTAD in the collection *International Monetary and Financial Issues for the 1990s*. Between 1992 and 1999 more than 80 papers were published in 11 volumes of this collection, covering a wide range of monetary and financial issues of major interest to developing countries. Since the beginning of 2000 the studies are published jointly by UNCTAD and the Center for International Development at Harvard University in the *G-24 Discussion Paper Series*.

The Project of Technical Support to the G-24 receives generous financial support from the International Development Research Centre of Canada and the Governments of Denmark and the Netherlands, as well as contributions from the countries participating in the meetings of the G-24.

# **ORGANIZATIONAL REFORM AND THE EXPANSION OF THE SOUTH'S VOICE AT THE FUND**

**Peter Evans and Martha Finnemore**

*University of California, Berkeley, CA, and  
George Washington University, Washington, DC*

**G-24 Discussion Paper No. 15**

December 2001

## ***Abstract***

*What organizational reforms might increase the influence of developing member countries within the International Monetary Fund? In this paper we argue that a variety of organizational changes are both feasible and could substantially increase the ability of developing countries to articulate policy alternatives and advance change. We focus particularly on changes in the recruitment, training, career paths and deployment of the Fund's staff. Our recommendations address two general issues. First, we explore ways to diversify the "intellectual portfolio" of the staff by drawing more effectively on hands-on knowledge of the concrete circumstances that shape policy outcomes in the South. More mid-career hiring of staff with practical experience inside developing country institutions could increase the degree to which the distinctive institutional circumstances of developing members are taken into account in formulating Fund policies and implementing them. Allocating a larger share of the Fund's resources to research consulting contracts for researchers and institutions based in developing countries could also expand input of ideas that reflect the experience of member countries from the South. Second, large asymmetries in workload currently make it difficult for those working on the needs of developing members to formulate and advocate alternative policies. We suggest a number of ways in which even modest reallocation and addition of staff resources might create breathing space that would allow Executive Directors from developing countries to play a larger role in shaping the Fund's policies.*

## Table of contents

	<i>Page</i>
<i>Preface</i> .....	<i>iii</i>
<i>Abstract</i> .....	<i>vii</i>
<b>I. Introduction</b> .....	<b>1</b>
<b>II. The political context of globalization and the Fund's evolving role</b> .....	<b>2</b>
<b>III. The governance problem</b> .....	<b>6</b>
<b>IV. Paradigms, personnel and organizational reform</b> .....	<b>8</b>
<b>V. Some possible strategies for organizational reform</b> .....	<b>13</b>
A. Increasing the voice of developing country Executive Directors .....	13
B. Rebalancing resources and obligations in the area departments .....	14
C. Valuing geographic context: the possibility of regional satellites .....	15
D. Valuing experience: the role of lateral entry .....	16
E. Sub-contracting the project of diversification: increased support for developing country researchers .....	18
<b>VI. Conclusion</b> .....	<b>19</b>
<i>Notes</i> .....	20
<i>References</i> .....	20

# ORGANIZATIONAL REFORM AND THE EXPANSION OF THE SOUTH'S VOICE AT THE FUND

**Peter Evans and Martha Finnemore\***

## **I. Introduction**

With over a thousand competitively selected professional economists, the staff and management of the International Monetary Fund (IMF) constitute a globally unique accumulation of human capital. The Fund should be one of the world's premier public service organizations. For developing countries, where specialized human capital is a scarce commodity, the potential value of such an asset is especially great. Yet, in the South the Fund's expertise is often seen less as an asset than as a source of intrusive, external control used to further the interests of private financial institutions and rich countries. Dealing with IMF's economists becomes the price to be paid for continued access to the financial flows that the Fund controls, rather than a means of access to a major intangible public good.

For the IMF to be perceived as an institution owned and controlled by Northern governments, operating as "the creditor community's enforcer" (Lissakers, 1991: 201), is obviously a problem for the Fund itself as well as for member countries from

the South. Everyone recognizes that when member countries "take ownership" of IMF programmes, chances of success increase. Even the quality of the information the organization uses for surveillance and design of programmes depends on the level of member country participation.

There are two ways in which the South's "ownership" of the Fund might be increased. First and simplest would be to expand the degree of the South's formal control over the Fund's decision-making apparatus by re-aligning votes to reflect the reality that developing countries are both the Fund's primary clients and a major source of its operational income. This route is conceptually simple but politically difficult, perhaps impossible, without fundamental changes in the underlying reality of the disproportionate political and economic power of the North. A second, more subtle, and more politically feasible, way would be to increase the voice of the South in the Fund – to increase the extent to which perspectives derived from the experience and interests of the member countries of the South are incorporated into research, policy formulation, and decision-making within the Fund.

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\* We should like to thank all the Executive Directors and members of the IMF staff, without whose generosity in offering their time and insights this paper could not have been written. We also are grateful to the Berkeley Institute of International Studies for sponsoring the Workshop at which a preliminary version of this paper was discussed, and to the following participants in the workshop for their helpful comments: Barry Eichengreen, Vijay Kelkar, Aziz Ali Mohammed, Maury Obstfeld, Beth Simmons and Steve Weber. Suggestions from Tom Callaghy, Jo Marie Griesgraber, Devesh Kapur and Robert Wade were also invaluable. All errors of judgement or fact are, of course, the responsibility of the authors.



Expanding voice is less dramatic than changing votes, but no less important.<sup>1</sup> Effective voice, for our purposes, has two components. It involves having the opportunity to formulate clear, informed views, as well as to advance them. Having more votes is an empty victory without a well-developed set of policy proposals that can in turn be effectively harnessed to the machinery of policy implementation. The power of votes is undeniable, and in the case of clearly clashing interests votes will trump voice. Nonetheless, the course of policy and programmes at the IMF depends as often on the sway of presumptions and ideas which make proposals persuasive as it does on the unambiguous imposition of interest. Voice is important and, while in no way denying the importance of votes, we shall focus here on voice.

Two features of the Fund's structure seem particularly important to the South's ability to voice its views. One hallmark of the Fund's policy-making is the value placed on consensus, both among staff of the bureaucracy and within the Executive Board. The extent to which policy is validated by consensus, particularly consensus among Executive Directors (EDs), increases the importance of effective voice since significant opposition undermines consensus claims. Other voice opportunities arise through the staff. We know that in any large bureaucratic organization the incentives, orientations and goals of the staff account for a substantial part of the variance in organizational direction and performance. This is especially true when staff activities depend on highly specialized expertise and when the organization's goals and outputs are complex and difficult to measure. Acknowledging the lessons of organizational theory leads firmly to the conclusion that the way in which the Fund's staff is recruited, trained, organized and rewarded must be a central determinant of how the Fund defines and executes its mandate. Therefore, the foundations of effective voice must be built on the recruitment, experiences and career trajectories of the staff.

In sum, the question posed by this paper is "What kinds of organizational reforms might increase the voice of developing member countries within the Fund?" We shall answer this question at the end of the paper by proposing several specific organizational reforms. Before suggesting such reforms, however, we shall make two initial arguments. First, the changing nature of the Fund's role in the current global political context makes increased responsiveness to the interests and perspectives of developing countries almost a logical necessity. Second, important organizational reforms are feasible despite the

*realpolitik* of Fund governance and the technical constraints within which Fund policies and programmes must operate.

## II. The political context of globalization and the Fund's evolving role

As the magnitude, velocity and volatility of global financial flows grow and the capacity of national public authorities to manage these flows declines, the role of the IMF has become more crucial. Even though private financial institutions and other private agents which collectively constitute "the markets" dominate the international financial system, the Fund is an essential catalyst for the collective action necessary to keep the system running.

As the global political economy has evolved over the course of the last 50 years, the Fund's role has also evolved. The initial tasks of increasing openness to the movement of global trade and capital have largely been accomplished. Current challenges are different and more difficult. On the one hand, the task of devising reliable institutional insurance against the threat of volatility and crisis has become ever more challenging as the volume and velocity of flows increase. Even more intractable is that fact that openness has proven insufficient to effect the kinds of North-South transfers of real resources on which market-driven solutions to poverty in the South depend. The difficulty of responding effectively to these new challenges makes the Fund's legitimacy more fragile.

The Fund's problems flow in the first instance from the failure of market-driven globalization to deliver sustained growth, diminished inequality and enhanced well-being to the majority of the world's citizens that live in the South. Growth has been uneven. Inequality has increased. Even where increases in monetary incomes have been achieved, they are too often accompanied by the loss of well-being due to the erosion of collective social and cultural goods. Discontent with the results of globalization is rife, but the private actors who bear primary responsibility for shaping the process of globalization are hard to hold accountable. "The markets" are not accountable to either citizens or congressional commissions. Consequently, resentment generated by globalization is focused on the public institutions charged with trying to diminish its negative effects – and the Fund is a prime target.

Ironically, while angry citizens storming the Fund's meetings are the more visible threat, critics with a very different point of view are more likely to undermine the Fund's ability to carry on. For those convinced that the solution to the problems of globalization is simply a more thorough hegemony of market forces, the Fund appears superfluous, if not an impediment. The Meltzer Commission, with its fixation on the Fund as a source of moral hazard is a good example. From the point of view of the Fund, the question is how it might generate a political constituency sufficient to prevent itself from being crippled by the twin cries of "De-fund the Fund!" and "Let the markets work!". Providing more effective service to developing country members must be a central element in building a broader constituency.

At the same time that the current global context makes the Fund more politically vulnerable, it also increases the importance of ideas and expertise in the Fund's role. The Fund's ability to act as a catalyst for collective action and its ability to both disseminate and legitimate ideas and information about the global economy as well as individual national economies becomes more important as the magnitude of its financial leverage relative to private markets declines.<sup>2</sup>

A central feature of the Fund's ideas about how to help members respond to global change has been a deepening of the Fund's involvement in local institutions in the member countries of the South. In the 1980s and 1990s, convinced that resolving balance-of-payments problems and achieving macroeconomic stability was impossible unless borrowers could be persuaded to restructure their domestic economies, and forced by the increasing magnitude of world trade and capital flows to undertake greater risks by lending increasing proportions of country quotas, the Fund began to focus its attention on constructing sets of "conditionalities" which member countries were required to accept in order to be deemed credit-worthy. Conditionalities were also seen as a service to private sector creditors, since their acceptance gave governments a way "to signal the predictability of their policies to private creditors" (Kapur, 2000: 5). In the 1990s, governance-related conditionalities became the vogue, and conditionalities came to focus increasingly on institutional issues rather than variables measurable in terms of traditional economic parameters.

The expansion of conditionalities is, in many ways, a logic result of the uneven success of Fund programmes (Killick, 1995). The assumption under-

lying policies prior to the 1980s that macroeconomic performance can be separated from the seamless web of institutional relations that determine economic performance was only a convenient fiction to begin with. As it became more obvious how hard it was to change a specific, restricted set of parameters without modifying the surrounding parts of the seamless web, the temptation to broaden the scope of conditionalities was irresistible. It is a hard trajectory to reverse. While the Fund's new Managing Director would like to shift the momentum in the direction of "streamlining conditionalities" (IMF, 2000a: 322), too many aspects of the domestic economy and its governance are critical to the Fund's core goal of macroeconomic stability to allow the Fund to recapture the simpler world of its early lending practices.<sup>3</sup>

Along with the move toward an expanded set of conditionalities, the Fund has intensified its focus on issues of poverty and inequality through the Heavily Indebted Poor Countries (HIPC) and Poverty Reduction and Growth Facility (PRGF) Initiatives. Like conditionalities, this has forced deeper involvement in the institutional life of borrowing countries. The Chair of the Fund opened its annual meetings in 2000 by highlighting these twin issues: "The great economic tragedy of our time is poverty. ... Growing inequality poses the greatest risk for the future of the global economy". The new Managing Director underlined the point by declaring that "The membership wants the IMF to stay strongly engaged with its poorest member countries". The position of the management of the Fund on the importance of continued Fund engagement with poverty issues is completely consistent with the position of the Group of Seven as expressed at its Summit held in Japan in July 2000 (where it was agreed that IMF responsibility for macroeconomic stability was a "key tool for the achievement of poverty reduction and growth") and in the Group of Seven Finance Ministers report to the Summit (which states that the IMF has a critical role to play in supporting macroeconomic stability in the poorest countries, through the Poverty Reduction and Growth Facility).<sup>4</sup>

Both conditionalities and responsibility for poverty reduction increase the importance of "on the ground" knowledge of and experience with the institutions of the member countries in which the Fund has programmes. Indeed, even conventional macroeconomic analyses concerned with financial stability require such institutional knowledge. Concern with the capacity to make "credible commitments" as central to building sound relationships with the international financial community illustrates the point.

Only robust institutions can make credible commitments. The commitments of one central bank that is formally independent but organizationally weak may be less credible in practice than those of another central bank that is not formally independent but organizationally robust. Superficial examination of the two cases is not likely to suffice to evaluate the difference between the two.

For programmes and policies that focus on poverty reduction the case for drawing upon local knowledge is equally strong. Making sure that macroeconomic policies are consistent with poverty reduction is a task that depends substantially on an intimate knowledge of the functioning of local institutions. Enabling the Fund's staff to play the same kind of innovative role in the implementation of conditionalities and poverty reduction that they have played in the diagnosis of macroeconomic flows requires diversification of the Fund's human and epistemological capital.

Attempts to change the Fund's role and the contents of its policies and programmes must recognize the Fund's diverse relationships with different sets of member countries. The constituency of the contemporary Fund with its 182 members, the vast majority of which are poor nations of the South, is vastly different from the constituency of its 29 original members, mostly industrialized countries from the North. The task of protecting the Bretton Woods system of exchange rates among the industrialized countries of the North has disappeared, and lending programmes in the North ended a quarter of a century ago.

North and South now confront the Fund from substantially different perspectives. From the point of view of the "structural creditors" of the North, the terms of the Fund's loan programme are rules that will be imposed on others (Kapur, 2000). While the North would obviously benefit from the diminished global tension that would result from improved economic performance in the South, the interests that impress themselves most immediately on Northern policy makers are those of the private financial institutions and transnational corporations that call the industrial nations home. These private actors have three kinds of interests. First, they want to make sure that they are not excluded from any potentially profitable opportunities in the South. Second, they are anxious to minimize the risks that might arise from clumsy economic management in fragile Southern economies. Finally, they would like to have economic institutions in the South mirror those with

which they are familiar in the North to the greatest extent feasible.

The South is, of course, interested in attracting capital from the North and can hardly afford to ignore the interests of Northern investors, but the Fund's activities appear in a different light. Just as debtors and creditors will never see bankruptcy laws in the same light, developing and industrial countries cannot be expected to see the Fund's role in the same light. The South's vision of the Fund's ideal role would emphasize provision of technical advice and information in a way that allows local policy makers substantial autonomy in deciding how it should be used to reshape local practices and institutions. Likewise, the Fund's "service" role would be focused on service to member countries rather than private lenders: providing finance when the private sector is no longer willing to lend, buffering poor nations from speculative attacks on the value of their currency and destructive "asset grabs" by creditors during liquidity crises.

Specific Fund policies are also likely to evoke different responses among Southern borrowers than they do from Northern structural creditors. For example, in the early 1990s policy makers in the South were not necessarily averse to opening their capital markets, but were more likely to see the Fund's efforts to impose "corner solutions" (i.e. either totally pegged or fully flexible currencies) as intrusive and limiting their policy flexibility. Issues of macroeconomic coordination among the industrial economies offer another kind of illustration. The countries of the South strongly suspect that the absence of macroeconomic coordination among the major industrial economies is an important element in the origin of financial crises in the system as a whole and should, therefore, be a matter of considerable interest to the Fund. From the point of view of the North, greater attention to this issue, even if it remained at the level of theoretical pronouncements, would constitute an unwanted intrusion into their policy process.

As political constituencies, North and South, especially the South, are, of course, hardly homogeneous. No matter how narrowly the boundaries of the North are drawn – i.e. Group of Ten, of Seven or of Three – there are still substantial differences in ideology and interests with respect to specific policies of the Fund within the North. These differences are important to any analysis of possibilities for innovation in the Fund's policies, but, from the point of view of the Fund's response to the challenges of globalization, differences within the South are even more important.

In thinking about the South and the Fund it makes sense to divide the South into “emerging market countries,” HIPC countries and “the rest”. Most prominent in the calculations of the Fund (as well as those of private financial actors) are the emerging market countries. The basic qualification for being considered an “emerging market” is having sufficient access to international capital markets so that private capital flows constitute a credible potential solution to local development problems. Depending on where the line is drawn, about a dozen developing countries and a smaller number of European transitional countries would qualify. At the other end of the spectrum are the 35 HIPC countries (IMF, 2000b: 50), whose poverty and institutional problems leave them without the prospect of access to private capital, beyond a scattering of traditional extractive investments which are unlikely to trigger transformative growth. This leaves the largest single group of the Fund’s member countries, perhaps 60–80 in all, which may be treated either as potential emerging market countries or potential HIPC countries, depending on the optimism of the observer. Before thinking further about the relationship of the South as a broad constituency to the Fund, it is worth briefly considering the situation of each of these three groups in turn.

Emerging market countries of the South include the major middle-income countries of Latin America, like Argentina, Brazil, Chile, Mexico and Venezuela, along with the East Asian “tigers” and the major countries of South-East Asia (Malaysia, Philippines, Republic of Korea, Singapore and Thailand) and perhaps South Africa. While poverty and inequality are still central issues in these countries, inflows of private capital are seen as central to growth and poverty reduction. At the same time, since this small set of emerging markets absorbs the vast bulk of Northern investment going to the South, these countries are vulnerable to the volatile behaviour of international investors, and therefore highly concerned with Fund policies aimed at maintaining investor confidence (e.g. the Fund’s new Contingent Credit Line) and policies aimed at limiting the damage from the almost inevitable exchange and liquidity crises (e.g. lending into arrears, standstills, collective action clauses, etc.). The emerging market countries are paramount both in defining the Fund’s strategy toward the South and as a source of tension over Fund policies. At the same time, since emerging market countries are the main source of opportunity and risk for Northern capital in the South, these countries also define North-South issues from the point of view of “the markets”.

Those who would like the Fund to focus on global financial concerns argue that inclusion in international capital markets is the best answer to underdevelopment and that all countries of the South, even the poorest, are emerging markets waiting to happen. The empirical basis of this projection is shaky. Despite the vast increase in net private capital flows to the South during the 1990s (prior to the Asian crisis), flows to PRGF countries were tiny and unreliable. In 1998, Chile (an emerging market country with only 15 million people) absorbed more net private capital flows than all of the PRGF countries combined. To be sure, total flows to PRGF countries increased, but individual PRGF countries bounced back and forth between positive and negative net flows, with little expectation that such flows would solve their poverty problems in the foreseeable future.

The 35 HIPC countries and the 45 PRGF-eligible members which are not included in the HIPC Initiative are intimately involved with the Fund, but in a different way quite different from the emerging market countries. With the exception of China and India, whose huge size more than compensate for their low incomes, dealings with private lenders are an aspiration rather than a problem for PRGF countries. Securing debt relief and further concessional financing for basic health, education, and infrastructure projects is the goal, and separating projects aimed at “macroeconomic stability” from those whose goal is “poverty reduction” is more a theoretical exercise than a practical distinction. The rest of the South is more like the PRGF countries in terms of the likelihood of private capital flows solving its problems than it is like the emerging market countries. While a few countries in this category (e.g. Columbia and Indonesia) have attracted capital flows on a scale similar to that enjoyed by emerging market countries, a change in political fortunes could easily thrust them back into the regular ranks.

Not surprisingly, analysing the Fund’s changing relationship to different constituencies produces conclusions that parallel those reached by analysing changes in the Fund’s role. Both sets of changes argue for an increased voice for the South and a diversification of the Fund’s intellectual portfolio in ways that would draw more effectively on the development experience of the South. Without more substantive input from the South, Fund programmes will be handicapped by a weak sense of ownership and suboptimal design and implementation. This still leaves the question of whether organizational reforms that would accomplish this are possible, given the

political realities of governance at the Fund and the heavy weight placed on legitimating the Fund's policies in terms of macroeconomic theory. We shall look first at governance issues, then at the role of theory and methods, and finally at the intersection of the two. We argue that, even in combination, these issues do not preclude important organizational reforms.

### III. The governance problem

Formally, the Fund is an unequal property-based democracy, in which votes are determined by historical contributions to capital rather than a more egalitarian one-nation, one-vote Westphalian model. In practice, the Fund is both more and less democratic than it appears, depending on which features of the decision-making process are emphasized. As in any organization (or polity), informal channels of influence are as important as formal decision-making structures. Some of these channels increase the degree of democracy in the Fund, others decrease it.

Since the most important decisions made by the Fund require a super majority of 85 per cent and the historic quota of the United States gives it 17.29 per cent of the votes, full democracy is impossible from the start. Even in the case of less important decisions where normal majorities are sufficient, the 10 industrialized countries that comprise the Group of Ten have 52 per cent of the votes and can therefore outvote the other 172 member countries. In contrast, all of the 80 PRGF qualified countries combined have only about the 10 per cent of the votes. In the unlikely event that they could act as a unified block, they would still be unable to stop even the basic changes in the Fund's Articles of Agreement that require an 85 per cent super majority. In short, voting power is structured so that the Fund is incapable of taking any action that the industrialized countries feel contradicts their national interest or the interests of private actors based in their jurisdictions.

Relative to normal standards of democracy, the South is fully justified in complaining about the "democratic deficit" in the Fund's governance. Nonetheless, the South is not completely powerless. If the major countries of the South share a common position, they can block proposals that require an 85 per cent majority. If the Group of 11 EDs, whose constituencies are largely from the South, work in unison,

**Table 1**

<b>DISTRIBUTION OF VOTING RIGHTS IN THE IMF BY GROUPS OF COUNTRIES</b>	
<i>Groups of countries</i>	<i>Percentage of votes</i>
United States	17.29
G-5 (Germany, France, Japan, UK, US)	39.57
G-7 (G-5 + Italy, Canada)	45.84
G-10 (G-7, Netherlands, Belgium, Sweden)	51.53
<b>The North<sup>a</sup></b>	61.45
Emerging market countries <sup>b</sup>	9.00
HIPC countries <sup>c</sup>	2.29
Non-HIPC PRGF countries <sup>d</sup>	3.67
China and India	4.14
The rest of the South <sup>e</sup>	11.22
<b>The South</b>	30.32 <sup>f</sup>
Transitional and other countries <sup>g</sup>	8.23

*a* "The North" includes 24 industrialized countries: the Group of Ten plus all remaining OECD members (Australia, Austria, Denmark, Finland, Greece, Iceland, Ireland, Luxembourg, New Zealand, Norway, Portugal, Spain, Switzerland and Turkey), except for Mexico and the Republic of Korea (which are included under "emerging market countries") and transitional countries (Czech Republic, Hungary, Poland and Slovak Republic).

*b* Includes Argentina, Brazil, Chile, Malaysia, Mexico, Philippines, Republic of Korea, Singapore, South Africa, Thailand and Venezuela. Transitional emerging market countries – e.g. Czech Republic, Hungary, Poland, Slovak Republic – are included in the "transitional and other" category.

*c* IMF (2000b, table 5.1: 50).

*d* IMF (2000b, table 5.3: 58). Excluding China and India, but including, among others, Nigeria and Pakistan.

*e* Includes, among others, Colombia, Indonesia, Iran, Iraq, Morocco, Saudi Arabia, Costa Rica and Uruguay.

*f* An alternative measure of the South's voting power is to aggregate the votes of the Group of Eleven Executive Directors, i.e. all those whose constituencies are primarily countries from the South. This produces a total of 31.9 per cent of the votes, but requires the cooperation of Spain and Australia, which are also represented by Group of Eleven EDs.

*g* Includes the Russian Federation, Czech Republic, Hungary, Poland, etc., as well as Israel.

they can block proposals requiring a 70 per cent majority – especially if they can find allies among the smaller industrialized countries. Developing the kind of clearly shared vision of common goals that would make such unified action possible is an important project. If it could be done, the power of the South, even measured formally in terms of votes, would become significant.

The process of decision-making within the Fund also generates possibilities for input from the South that are not evident in the formal distribution of voting power. Unlike the Board of Governors, which sits at the apex of the decision-making structure but meets only once a year, the Executive Board is a real working governance body. The 24 EDs who make up the Board meet together regularly (149 times in 1999), making decisions about both individual country programmes and overall policy. While there are occasionally votes on the Executive Board, most decisions are made by consensus. Having a formal summary of debate in the Executive Board meetings makes it hard to claim consensus if too many EDs are opposed. Given that there are 11 EDs representing countries of the South, this means that members from the South have considerable voice in the Fund's most important decision-making body. Voice does not make up for the democratic deficit in terms of votes, but it does give the South an opportunity to influence policy and programmes. Ideas for enabling developing country EDs to use this opportunity more effectively must be central to any programme of reform.

Counter-balancing possibilities for voice inside the Fund are patterns of informal influence from outside the Fund that result in concentrations of power even more unequal than the formal voting structure. To begin with, there is the informal understanding that the Managing Director will be from a European member of the Group of Five, but this is at least a transparent form of informal control. As in the borrowing countries with which the Fund deals, less transparent forms of influence are more corrosive of accountability and "good governance" in the Fund. Most prominent among them is what might be called the "Treasury effect".

In recent years, the United States Treasury has become notorious for transmitting its preferences directly to Fund management and staff, rather than simply having the US ED air them in Executive Board meetings. Combined with heavy lobbying efforts vis-à-vis individual member governments, this gives US

opinions sway even beyond the United States' disproportionate share of voting rights. This influence becomes particularly irksome to other member governments when it is used to turn the Fund into an instrument of US foreign policy in ways that contradict the Fund's own highly-prized claims to making decisions on the basis of objective economic analysis. Continued financial support for the Russian Federation despite gross violations, not just of conditionality but of basic Fund reporting rules, is the example most often cited.

Precisely because it is informal, the Treasury effect is hard to eliminate in the absence of changes in the real balance of global power that diminish US hegemony. It might, of course, be argued that such changes are in fact likely and that US hegemony – and therefore the importance of its informal influence – has already passed its apogee. Europe's preoccupation with internal institution-building and Japan's stagnation, combined with a temporary economic boom in the United States, have resulted in a kind of "hyper-hegemony" that is likely to dissipate. This is, of course, pure speculation. The only immediate solace for the South is that United States Treasury influence tends to be focused on a relatively small set of countries and issues, leaving the bulk of the Fund's decisions to be shaped by more transparent institutional processes.

The bottom line with regard to governance is that the formal rules are unlikely to change substantially. The recently industrialized countries of East Asia may eventually succeed in getting the larger quotas that they deserve on the basis of the increased size and importance of their economies, but it is likely to be at the expense of the Europeans rather than the United States, leaving US veto power intact. Even with some reallocation of quotas, the South will continue to have a minority of the total votes. What then might be done within the parameters of these formal governance structures? The answer is, surprisingly, "quite a bit". A good deal, perhaps most, of what the Fund does is rooted less in explicit directives from its "principals" than in a taken-for-granted paradigm of how macroeconomic stability and development and poverty reduction are best achieved. The structure of the Executive Board gives EDs from the South considerable opportunity to debate the features of this paradigm. To make the paradigm better incorporate their needs and experience, however, they need a strong flow of new ideas and information. In the end, the question of governance cannot be separated from the question of ideas.

#### IV. Paradigms, personnel and organizational reform

Contemporary organization theory provides a number of useful insights into the possibilities of reform at the Fund. The Fund is a knowledge-based organization. It has material resources to distribute, but it is the coupling of these resources with detailed knowledge and “expert” analysis that both legitimates the way it distributes funds and amplifies its advice. Within knowledge-based organizations, those holding knowledge tend to have significant autonomy. Day-to-day activities of the Fund’s “operators” (the staff) are not easily observed by management (to say nothing of the state “principals”), and the connection between day-to-day practice and the outcomes sought can be observed only with a considerable lag, if at all (Barzelay, 2001: 134–144). Consequently, the beliefs and attitudes of the staff are of crucial importance in determining what the Fund actually does. As in the case of the World Bank (Miller-Adams, 1999), “organizational culture” is as fundamental to outcomes as power politics.

The expertise resident at the Fund is almost entirely economic. In fact, the Fund may be unique among major international organizations in its professional homogeneity. The World Bank, WTO and other economic organizations all draw on a much broader range of professional specialities to do their work. Not only are the Fund’s staff members virtually all economists, but they are almost all macro-economists, and most have been trained at American or Anglo-American universities (Clark, 1996; table 4 below).

Economics as a profession differs from law or medicine in that it is an academic discipline rather than an organization of practice. There is no equivalent of the Bar or Medical Boards that certifies one to “practice” economics on the people (or governments) of the world. Consequently, the large body of organization theory literature on competition for state monopolies over certain kinds of activities by professions tells us little about Fund economists. What Fund economists do share with law and medicine that has related effects, however, is command of a body of abstract and complex knowledge which they apply to particular cases (Abbott, 1988; Brint, 1994; Larson, 1977; McDonald, 1995).

Expertise has a number of well-documented effects on those who wield it and the organizations they inhabit. First, expert knowledge inevitably con-

tains cultural and normative components. Expert or professional training does not simply transfer “objective” technical knowledge. Rather, it is a conscious attempt to shape world views and values of practitioners. Doctors are explicitly trained to value human life above other goals; soldiers are trained to sacrifice human life for certain strategic objectives. The analogue for economists might be that economists are trained to value efficiency above other goals, while other professions are trained to emphasize ecological protection, social well-being or universal literacy. The values and norms of a profession influence the social problems they recognize as needing solutions, the kinds of data they believe are relevant to understanding those problems, and the array of solutions they perceive to be available and appropriate (Haas, 1989; DiMaggio and Powell, 1983; McDonald, 1995).<sup>5</sup>

Second, any system of abstract and complex knowledge has blind spots. Indeed, it creates them. Theory, by its nature, abstracts from reality and purposefully ignores some things in order to make others tractable. Information that is not required or produced by an economic model is an “externality” and becomes invisible in economic analysis. Similarly, issues about which the intellectual technologies of economics are silent are ignored. They are not “economic problems”, and so must be somebody else’s problem. Intellectually, these may be sound positions, but for experts in large public bureaucracies they can be difficult positions to maintain. Political decision makers who run these bureaucracies rarely are content with “it’s somebody else’s problem”, nor should they be. Consequently, the mandates given to experts, including economists, are often larger than the range of knowledge they possess. In the case of the Fund, expanded mandates have involved economists in policy-making on a broad range of social, environmental and even military issues about which economic expertise says little and which, understandably, can make staff uncomfortable. Lack of fit between their expertise and tasks shapes both the attitude of staff toward these tasks and the way they perform them.

A third, and related, characteristic of theoretical expertise is its tendency to overvalue abstracted rationality at the expense of what Brint calls “contextual rationality” and the “contextual pragmatics” of policy-making. In many situations, “local knowledge” – knowledge about specific contexts or situations – may be more valuable than abstract concepts in solving policy problems (Brint, 1994; Lindbloom, 1990; Lindbloom and Braybrooke, 1963;

Lindbloom and Cohen, 1979). Restoring monetary stability in a country like Mali is likely to depend more on detailed understanding of how the informal economy works or how social structures create labour market rigidities than the universal truths provided by macroeconomic textbooks. Failure to incorporate local knowledge has been shown to hamper development efforts at the World Bank (Escobar, 1995; Ferguson, 1990; Gran, 1986). There is also every reason to assume that it influences Fund outcomes.

Local knowledge is particularly important at the Fund because so much of its work has what James Q. Wilson (1989) would call a “craft” character. Craft work tends to be project-based work in which each product is unique, procedures are non-routine, and the work process depends to a considerable degree on experimentation and intuition (Perrow, 1967). Architecture, construction, publishing and medicine all have strong craft components in their work. So, too, does the work of the Fund. Managing the global monetary system is not a routinized activity in which standardized responses drawn from abstract principles can be simply dropped onto problems. Each national economy is unique and IMF programmes must be tailored to the particularities of time and place in each case. Designing successful programmes requires detailed knowledge of the specific national economy seeking assistance and the institutional, political, and social context in which the programme is to be implemented. Fund staff recognize this, and their use of missions to collect information about individual members is designed to supply some of this particular context information. Serving 182 members requires a great deal of local knowledge, however, and the pace of Fund work inevitably requires some standardization of responses simply to get programmes in place in a timely way. Balancing the need for speed against the need for local knowledge about the complexities of each case is an ongoing feature of the Fund’s work.

Striking the right balance between general analytical models and institutionally sensitive local knowledge is most pressing for countries in the South. These are the countries most likely to require IMF programmes and they are also the countries where “local knowledge” is most important because their local institutional contexts differ most sharply from baseline macroeconomic assumptions. The necessity of a greater weight on country-specific institutional experience is increased by the Managing Director’s admonitions that “poverty reduction strategies must be country-driven, developed and monitored with Board participation, and tailored to country circum-

stances” so that they will “enjoy broad public ownership” (IMF, 2000b: 55). A “local knowledge deficit” is thus more likely vis-à-vis the South and more likely to compromise Fund programmes there.

All of these characteristics of expertise in organizational decision-making are apparent in the Fund and provide possible opportunities for change. Shared belief in a paradigm is one of the Fund’s main strengths as an organization. An integrated set of theoretical and methodological propositions allows Fund staff, managers and EDs to ground policy recommendations in a general framework that is shared, not only within the Fund, but also by the economics profession more broadly. The Fund’s shared macroeconomic paradigm gives staff and management a common language and shared approach to specific problems, despite the fact that they are drawn from 127 different countries. Yet, by definition, a detailed, comprehensive prescriptive paradigm also restricts the range of innovation likely to emerge out of the Fund’s deliberations. It is very hard for the Fund, as an institution, to “think outside the box”. Any proposal for diversifying the Fund’s intellectual portfolio in a way that will increase the voice of the South must balance the advantages of coherent decision-making and capacity for collective action conferred by strongly shared beliefs against the limitations on innovation which also flow from tightly shared paradigms.

The strongest argument against diversifying the intellectual portfolio is a simple one: the current paradigm provides the most accurate available theory and techniques for analysing the real economic world. It is based on a hundred years of cumulative theoretical progress in the discipline of economics and offers the best possible predictions of the effects of particular policies, and therefore the best insurance of achieving whatever goals member countries decide that they would like to achieve. Improvements are always possible, but they should be seen as refinements of the existing paradigm rather than as alternatives to it.

This argument has obvious merit, but it is overstated. To begin with, the extent to which existing economic theory produces unique solutions to policy questions should not be exaggerated. Two examples from the Fund’s recent history illustrate the point. Firm convictions that full opening of capital accounts was necessary to “reform” the domestic financial markets of developing countries and allow them to secure the benefits of international capital markets were presented in the mid-1990s as derived from the wisdom of economic theory. Following the Asian



crisis, it seems obvious that carefully phased opening of capital accounts, contingent on improvements in domestic prudential regulatory capacity, is more consistent with existing macroeconomic theory. The difference in interpretation was clearly dictated by the lessons of experience more than by any intervening revision internal to the paradigm. Privatization in the Russian Federation and the other transitional economies is another case in point. When the Fund initiated its policies, the case for privatization seemed to flow easily from even a rudimentary comparison of the prospective relative efficiency of state-owned and private enterprises. In retrospect, it seems obvious that exchanging a set of semi-accountable public monopolies for unaccountable but politically connected private monopolies is likely to result in welfare and efficiency losses rather than gains. Once again, experience resulted in a new understanding of the theory-policy connection.

In so far as the Fund's policies and programmes venture beyond macroeconomic stability into the area of governance, poverty reduction and reforming domestic economic institutions, the Fund must face the intellectually murkier terrain that the World Bank has long been forced to deal with. Determinate relations between theory and policy are more difficult to sustain. Well-meaning and apparently rational policies can have perverse effects (see, for example, Ferguson, 1990). In these policy areas, the importance of local knowledge in understanding actual institutional dynamics, and therefore making accurate predictions regarding the economic consequences of institutional changes, becomes paramount.

Even without venturing into the murky territory of institutional change and development, the extent to which theory can be used to argue that "there is no alternative" when it comes to specific policies is clearly exaggerated. A recent comment by Michael Mussa, Director of the Fund's Research Department illustrates the point. Asked about the recent weakness of the euro, he replied that about half of the euro's depreciation "was the result of the 'manic-depressive nature of the market'" (IMF, 2000a: 336). If the behaviour of the deepest and most sophisticated financial markets in the history of the globe can only be explained in terms of pop psychology, how likely is the behaviour of local entrepreneurs and public officials in Botswana, Bolivia or Nepal to be predictable on the basis of textbook macroeconomic propositions?

The point here is not to argue for abandoning the paradigm; it is to argue that a more diverse intel-

lectual portfolio, which includes a larger component of local knowledge about Southern institutional practices, might actually allow more effective application of the existing paradigm. Any proposals for implementing such intellectual diversification requires thinking, in turn, about the recruitment, training, career paths and organization of the Fund's staff.

It is hard to think of any other organization (except, of course, the World Bank) in which over a thousand professional economists work in close, coordinated contact on a shared set of public issues. In addition, the Fund is able to pay salaries and offer perquisites that – deprecatory comments by the former Chief Economist of the World Bank aside – allow the recruitment of a highly qualified set of professionals.<sup>6</sup> The value of the human capital assembled at the Fund is also enhanced by the unusual integration of research and applied work that IMF encourages. In academic settings, policy applications are more an individually pursued sideline than a collective endeavour. In government agencies and private corporations immediate pressures to deal with specific applied tasks leave little time for research and reflection.

Finally, the potential contribution of the Fund's economists is enhanced by the fact that the Fund is in an unusually comfortable position in terms of budgetary constraints, relative to most other public organizations, national or international. In contrast to the national governments whose expenditures IMF monitors, Fund staff size, administrative budgets, and staff salaries have continued to expand (Clark, 1996). The number of economists at the Fund more than doubled in between 1980 and 1999 (IMF, 2000b: 98) and the Managing Director's salary increased by more than 50 per cent between 1987 and 2000 (Clark, 1996: 80; IMF, 2000b: 97). While individual members of staff may work under considerable pressure, there is appreciable "organizational slack" in the Fund as a whole (Kapur, 2000: 25). The output required for organizational survival does not exhaust the human, fiscal and organizational resources that Fund has at its disposal. Staff and management have leeway to make choices and experiment.

Given the Fund's extraordinary position as a repository of economic expertise, the potential for innovative contributions to economic knowledge and policy formulation is undeniable. Indeed, beginning with Jacques Polak's famous models, Fund staff can take credit for a variety of innovative ideas. The scope of innovation is, however, restricted by the tendency to what might be called "intellectual monocropping".

Lack of intellectual diversity is grounded first of all in the tightly shared paradigm discussed above, but it is reinforced by recruitment and career patterns within the organization.

While it is true that 127 of the Fund's 182 member countries are represented on the staff, it is also true that the United States, the English-speaking industrial nations and the industrialized economies more generally are heavily over-represented on the staff, even taking into account the argument that staff proportions should reflect country quotas. Furthermore the tendency toward monocropping is more pronounced in those parts of the organization that might be expected to make the most contribution to innovation and policy change – management and the core policy departments like Research (RES) and Policy Development and Review (PDR). Economists from the South represent less than one third of the economists in the top professional rank (A-15) and a similar proportion in the managers ranks (B-1 through B-5) (Lahti, 2000: 29). Among department heads (B-5) the proportion of managers from the South is around 20 per cent, a proportion that is lower than it was 10 years ago. In contrast, 47 per cent of department heads come from English-speaking industrialized countries (Lahti, 2000: 31). Nor is there any general trend toward recruiting more economists with developing country origins. As table 2 shows, the almost 50 per cent expansion of the total number of economists employed by the Fund over the course of the last decade (1990–1999) has not been taken as an opportunity to increase the proportion of Fund economists with developing country origins. Instead, it has fallen slightly. Likewise, as table 3 shows, the proportion of economists with developing country

Table 2

### TRENDS IN NATIONAL ORIGINS OF FUND ECONOMISTS, 1990–1999

*Percentage of developing country origin by year  
(Number of developing country origin in parentheses)*

	1990	1999
A-9 – A-15 (professionals)	42 (220)	39 (321)
B-1 – B-5 (managers)	30 (56)	33 (83)
Total	39 (276)	38 (404)

*Source:* 1999 Diversity Report (1999, table 8: 47), Washington, DC, IMF.

origins being currently recruited is lower than it was 10 years ago, especially in the elite “Economists Programme” (EP).

While there would seem to be good arguments for increasing the “passport diversity” (i.e. diversity measured by national origin) of IMF staff, focusing on passport diversity per se would miss the point. Despite the disproportionately small share of developing country staff (and non-Western developed country staff),<sup>7</sup> among the staff, the degree of pass-

Table 3

### TRENDS IN RECRUITMENT OF FUND ECONOMISTS, 1990–1999

*Percentage of developing country origin by year  
(Numbers of developing country origin in parentheses)*

	1990	1999	Total 1990–99
Economist programme	52 (13)	35 (13)	42 (149)
Other economists	40 (12)	46 (28)	36 (193)
Total	45 (25)	42 (41)	38 (342)

*Source:* 1999 Diversity Report (1999, table 12: 51), Washington, DC, IMF.

**Table 4**

<b>COUNTRY OF FINAL DEGREE FOR 1999 ECONOMIST PROGRAMME</b>		
<i>Region</i>	<i>Country</i>	<i>Total EPs graduated</i>
Europe	Denmark	1
	France	2
	Italy	1
	Germany	6
	Switzerland	1
	United Kingdom	7
	<i>Total for Europe</i>	<i>18</i>
North America	Canada	1
	United States	18
	<i>Total for N. America</i>	<i>19</i>
Asia	---	0
Africa	---	0
Latin America	---	0
Other	---	0
<i>Total</i>		<i>37</i>

*Source:* IMF.

port diversity is still very impressive if one takes into account the differential size of available pools of men and women with Ph.Ds in macroeconomics. The problem is that passport diversity unquestionably overstates the diversity of the Fund's intellectual portfolio.

Focusing on diverse national origins masks homogeneity of training and outlook. Clark (1996: 182) claims that "a full 90 per cent of recent hires with doctoral degrees have received them from universities in the United States and Canada". Current data (see table 4) suggest that recruitment of Ph.Ds with European training is greater than Clark suggests, but there are still no recruits to the EP programme trained outside the industrial countries. A Fund staffer explained that the tendency for talented, would-be economists from the South to come to the United States for graduate training, rather than staying in

their home countries, has reached a level that makes it relatively easy to achieve passport diversity, even if hiring is focused primarily on top US graduate schools. When common American training is combined with the Fund's own two-year internal socialization programme, young developing country economists in the EP are likely to become firmly immersed in the common paradigm, regardless of their country of birth. Again, there are powerful advantages to this system which cannot be ignored, but if diversifying the Fund's intellectual portfolio is a goal, then strategies must be found to complement the standard trajectory.<sup>8</sup>

The realities of "brain drain" are such that recruiting in the top universities of the North may, of course, be the easiest way of bringing the "best and the brightest" from the South into the Fund. It still leaves the problem, however, that a career trajectory which starts at an early age in an academic environment in the North and is then followed by life in Washington, punctuated by brief "missions" to the South, provides little room for acquiring "hand-on" experience with the operational intricacies of institutions in the South. The chemist/philosopher Michael Polanyi (1958: 53) has argued compellingly that the natural sciences are "an art which cannot be specified in detail [and therefore] cannot be transmitted by prescription". Certainly this is much more true of the art of economic policy-making in developing countries. Substantial on-the-ground experience should be a crucial element in the organization's intellectual portfolio. As one developing country ED put it, the Fund needs more people who have been "working at the coal face".

Expanding the number of Fund economists with practical hands-on experience in developing country institutions is one way of increasing the extent to which local knowledge of the institutions and country-specific problems of developing country members plays a greater role in policy formation and implementation strategies at the Fund. Greater use of institutions and researchers based in the South to perform subcontracting and consulting projects for the Fund would be another. Any such efforts at intellectual diversification must be grounded in organizational changes. Organizational reforms and expanded voice go together. The range of possible reforms is large, and only a few of the many possibilities can be considered here. Hopefully, they will be sufficiently provocative to stimulate a range of alternative suggestions.

## V. Some possible strategies for organizational reform

The argument so far has suggested that the Fund and its member countries would be well served by an effort to complement expertise based on the prevailing general paradigm, with ideas derived from local knowledge of the actual workings of economic and political institutions in the South and from experience in those institutions. But, expertise and ideas are not disembodied. Expertise, especially when it is implemented as policy and programmes, is embodied in and transmitted by individuals. Any programme of intellectual innovation must involve the recruitment, allocation and career trajectories of the staff, which is to say the structure of the Fund as a bureaucratic organization.

Most observers would agree that the Fund is a quite efficient organization, in its own terms. Major organizational shake-ups of the kind the World Bank has experienced would probably be ill-advised. Nor should organizational reforms threaten the current meritocratic character of Fund recruitment and promotion policies. Nonetheless, the fact that IMF enjoys a steady rate of growth in terms of professional staff creates room to manoeuvre. Assuming that the organization continues to be able to add an average of 30 new professional staff positions per year, as it has done over the course of the past 20 years, marginal changes in the allocation of staff can be accommodated in a relatively short time without jeopardizing existing work programmes or threatening current levels of efficiency. Such changes could have a significant impact in stimulating new ideas and approaches.

Five possibilities for organizational reform are offered here. All of them are designed to increase the Fund's connection with and utility to the developing countries of the South. They involve: complementary shifts in recruitment procedures and career trajectories, allocation of staff across divisions and ED offices, diminishing the currently very high degree of geographic centralization, and broadening the search for outside consultants and researchers. None of them involve major restructuring, but in combination they would significantly change IMF's organizational relationship to developing regions.

### A. *Increasing the voice of developing country Executive Directors*

We have argued that the consensual process of decision-making on the Executive Board is one of the important democratizing features of Fund governance, and that the possibility of voice on the Board compensates to some degree for the inegalitarian distribution of votes. Yet, the possibility of exercising voice on behalf of new ideas requires investing time and energy in the development and substantiation of these ideas. Even effective criticism of existing frameworks depends on prior investment of time and expertise. The current distribution of responsibilities among EDs gives the Group of Five EDs an overwhelming advantage over developing country EDs in this respect.

The Group of Five EDs represent only one country and never have to deal with the negotiation or monitoring of IMF programmes in their countries. Annual Article IV reports are relatively less important to their countries and therefore require less attention. In short, these EDs are free to focus their attention on shaping Fund policies. In addition, they are likely to be able to rely on extensive support from their own national governments to help them elaborate positions in which they have an interest.

The circumstances of EDs from the South is quite different: the positions of the two African EDs, each of which represents over 20 countries, are the clearest cases of overload. These two EDs have the task of representing almost a quarter (24 per cent) of the Fund's members, the majority of which countries have Fund programmes, often of several types, either under way or under negotiation at any point in time. Each of these EDs represents 10 or more HIPC countries, almost all of which are PRGF-eligible; thus each African ED is dealing with a variety of PRGF programmes, and therefore at least indirectly with the production of PRSP's (Poverty Reduction Strategy Papers). Each of these EDs has half a dozen or more constituents which are either in arrears to the Fund or have programmes which have gone off-track and require additional attention. Both EDs also represent countries receiving Emergency Post-Conflict Assistance from the Fund. All of these varied IMF programmes involve quarterly review, not just the annual review Group of Five countries do for Arti-

cle IV. No other constituency generates this kind of workload. Trying to represent immediate constituency interests is more than a full time job.

Political considerations within these constituencies compound the problem. Chairs that represent larger numbers of member countries must be rotated among at least the more important of these countries, so that no ED is likely to be able to stay in his or her position long enough to fully “learn the ropes”. Furthermore, the perhaps six to eight professional staff attached to such ED chairs must be selected to provide representation to countries other than the ED’s own. The ED is not in a position to construct a “team” that can carry forward a project of developing new policy positions that reflect the general interests of the represented member countries. Indeed, it is hard to find the time to examine and thoroughly analyse the Fund’s existing policy positions.

The increased responsibilities of particularly the African EDs over the course of the past 10 to 15 years has left them with what one ED called an “impossible task”. According to this ED, continuing on the current trajectory will mean that the voice of the African EDs will “effectively be shut down”. Such an outcome obviously undercuts any attempt to expand the South’s voice, but avoiding this outcome will require serious organizational attention. The obvious remedy would be to divide the two African constituencies in half and add two more African EDs. This need not involve changing voting quotas. If the smaller European countries were willing to consolidate the five chairs that they currently hold (without, of course, reducing their votes), it would not necessarily even involve increasing the total number of EDs. Even if four African EDs shared the same number of votes among them as the current two, Africa’s voice on the Board would be expanded.

If despite the debilitating overload faced by African EDs, the reallocation of chairs is still seen as too radical, expansion of staff would be a minimalist response, but still a positive one. The disparate situation of African and Group of Five EDs currently receives only token recognition in the form one or two extra staff members. Making a start towards levelling the playing field by giving EDs from the South the staff back-up they need in order to effectively use their voice on policy issues would require investment, either in staff directly accountable to individual EDs or perhaps in a pool of staff shared by the more hard-pressed developing country EDs. Increasing the capacity of these ED offices

would not only expand the range of issues on which the ED’s own staff could provide support but also increase the ability of developing country ED offices to monitor and shape the policy work going on in the major functional departments.

Overall, the addition of a dozen professional staff positions (a little over 1 per cent of the Fund’s current number of economists) for the purpose of increasing the capacity of developing country ED offices would seem like a very reasonable investment.<sup>9</sup> Some might argue that such a minimal addition is a *quid pro quo* for recent increases in the rates charged to Southern borrowers for the use of Fund loans. At the same time, from the perspective of the Group of Five, this is the least politically threatening way of increasing the voice of developing country EDs. There is no reason why it should not be politically feasible within the current voting rules.

Other more creative solutions should also be considered. More long-term staff would help with day-to-day problems, but generating policy agendas that reflect the experience of HIPC and PRGF countries may require the infusion of “idea generators” with a higher rate of turnover. Creating a rotating cadre of research- and policy-oriented economists dedicated to working on these problems might provide such an infusion. These would be hired for strictly limited terms, after which they would return to their countries of origin. They could be assigned to African or other Group of Nine/Group of Eleven EDs and devoted to generating policy proposals specifically reflecting the concerns and experiences of those member countries. Such proposals could then be elaborated and developed in collaboration with the Research and PDR Departments, with a view to presenting them to the Board.

## **B. *Rebalancing resources and obligations in the area departments***

A similar, though less extreme, disparity between the distribution of staff resources and the challenges that staff must deal with exists in the Area Departments. A quick look at the distribution of area staff (as of mid-1999) will serve to illustrate the point. The Equatorial Africa Division of the Africa Department is overseeing PRGF programmes in half the countries under its jurisdiction (two of four). It has eight economists. The Central European Division I and the Maritime Division of the European Department, which deal with countries which have neither

had a Fund programme in the last 25 years nor are likely to in the next 25 years, have each seven economists and a research assistant. The North American Division (Canada and the United States) has seven economists and two research assistants.

Member countries may wish to claim equal rights to Area Department staff regardless of the geographic distribution of organization's activities, but such claims are hard to justify in terms of the Fund's overall mission and current workload. The simple logic of allocating staff in accordance with IMF's obligations to manage loans and programmes and the difficulty (based on past experience) of those programmes is hard to deny.

### ***C. Valuing geographic context: the possibility of regional satellites***

The natural complement to better calibration of staff allocation and regional responsibilities would be trying to locate more of the Fund's economists in developing regions. A major decentralization like that undertaken by the World Bank probably would not make sense, nor would it be likely to be tolerated by the management or Board of Governors. Nonetheless, the current character of IMF's tasks, the increasing salience of developing regions and the difficulties that the Fund has experienced in achieving local ownership of its programmes, all argue in favour of at least a marginal increase in geographic decentralization.

Decentralizing a small proportion of the Fund's staff has already begun with the Residential Representatives programme. There are now 17 staff members assigned to the Africa Area Department and serving as Residential Representatives in Africa. The Singapore Regional Training Institute and the Joint Africa Institute also recognize the value of geographic decentralizing, but only with respect to inculcating IMF ideas in other locations. Decentralization aimed at taking advantage of local knowledge and on-the-ground experience would be a real innovation. Locating some small but critical mass of Fund staff in a single location would create the possibility of real interaction with the local community of economists as well as developing some local *esprit de corps*.

Arguments in favour of decentralization can be made in relation to the Asia Pacific region and for the transitional economies of Eastern Europe and the former Soviet Union, but they are probably strong-

est in the case of Africa. Given the number of PRGF operations under way in Africa, the time and cost of continually getting staff from Washington to the Fund's multiple African operations and back is considerable. The cost saving from doing some of the servicing of these programmes from Lagos, Nairobi or Johannesburg would substantially compensate for whatever economies of scale might be lost owing to decentralization.

The creation of some decentralized offices would be one way of responding to the disparities between resources and obligations in the area departments discussed above. If the Africa Area Department were to grow over the next three years at the same rate that it grew between 1996 and 1999 (17 additional positions), and if these positions were to be located in the region itself, a major step would have been taken in the direction of decentralization.

Decentralization as a strategy for increasing the voice of the South does, of course, have its downsides. Fund staff members working in poor countries could easily become a small "golden ghetto," isolated from the local environment almost as thoroughly as though they were living in Washington, while creating a visible and divisive example of the distance between the life styles of international technocrats and normal professionals working in the South. If decentralized Fund personnel were simply to become a "golden ghetto" of expatriates living at a level that isolates them from the community of local economists and policy makers, they would be unlikely to gain new insights based on local problems and conditions. Serious thought would have to be taken to ensure that decentralization produced real "on-the-ground" experience and involvement with the local professional environment.

Integrating decentralized operations into the Fund's current organizational structure would also require serious thought. The current emphasis on mobility among departments would have to be applied with equal zeal to mobility between any decentralized operations and the core departments at headquarters. In short, regionally decentralized offices should not be simply creatures of the area departments but should include staff from the major functional departments that design and evaluate programmes.

Downside problems need to be balanced against the upside of mitigating the effects of current trends towards the flight of highly qualified professionals from the South. If the South is to have an effective

voice in global policy debates (in the Fund or any other global venue), it must strengthen local professional communities. Creating a nucleus of 20 to 30 top-flight macroeconomists by setting up a Fund satellite operation would generate a significant addition to most developing cities (almost equivalent to adding a new university department of economics). In the ideal case, decentralization could contribute to the kind of locally-based *esprit de corps* and innovative theorizing that was epitomized by CEPAL (ECLAC) in the Latin American context.

#### D. Valuing experience: the role of lateral entry

Questions of recruitment and career trajectory raise the issue of local knowledge and expertise in a different way. At the grossest level, two kinds of skills are required by Fund staff. First, they must master the analytical skills required to analyse and evaluate general models of macroeconomic performance and, ideally, improve upon them. Formal training in economics is the best source of such skills and recent products of top graduate programmes should have them in abundance. Second, Fund staff must be able to figure out how to use these models in a way that will effectively predict when and where crises are likely to occur and to translate these models into policy suggestions that will improve (ideally in a preventative way) the macroeconomic stability of member countries, including developing countries whose institutions are unlikely to conform to the assumptions that underlie the models. This second kind of skill requires a keen sense of how institutions work on the ground and the politics of how they can be changed. Formal economics training in academic settings is unlikely to contribute a great deal to the development of such skills, which are much more likely to have the character of what we have described as “craft”, and draws upon “local knowledge”.

For Fund personnel to acquire local knowledge it must happen “on the job” and indirectly in the course of negotiations with local country officials. While a good deal of learning may take place, especially if local officials are well-prepared and willing to defend their positions, this kind of indirect acquaintance with local problems is not a substitute for long-term experience with on-the-ground immersion in the day-to-day operations of developing country institutions.

One potential opportunity for enhancing the Fund’s stock of local knowledge lies in its already

extensive use of lateral, mid-career hiring. The Fund engages in two kinds of recruitment: the Economists Programme (EP) which takes in newly trained Ph.Ds on the one hand and various kinds of “lateral entry” or “mid-career” recruitment on the other. EP recruits (EPs) are hired as generalists for their strong analytic skills. While diverse in nationality, virtually all have been trained in prestigious European and North American universities (see table 4). They spend two years at the Fund in two different departments for one year each, where they are taught Fund methods of analysis and how the Fund works as an organization. At the end of their two-year training, EPs are either offered a permanent job and accept, or move on. About 80 per cent of EPs stay on at the Fund as permanent employees.

In a normal year more people are hired by the Fund at the mid-career level than in the EP, and the proportion of mid-career hires has grown substantially in recent years. About half of these mid-career hires are generalists hired for their strong analytic skills similar to those of the EPs. The other half are specialists hired for particular expertise gained outside the Fund in some functional area. Mid-career economists may be hired from universities, but may also have hands-on experience in member state Finance Ministries, Central Banks, or even the private sector. Most mid-career hires of both types are brought in on two to three-year contracts, at the end of which the Fund decides whether to make them permanent offers. As with EPs, most are made permanent.<sup>10</sup>

Currently, the distribution of mid-career hires by geographic origin is similar to the overall distribution of Fund economists. Only a third are from developing countries (see tables 5 and 6). Since some proportion of this group may well come out of careers in industrial country academic or policy institutions, it is unclear how much current mid-career hires result in a significant infusion of local knowledge from the South. One obvious strategy for diversifying the Fund’s intellectual portfolio would be to make systematic efforts to increase the proportion of staff whose perspectives have been shaped by the experience not just of negotiating with developing countries or gathering information about them but also of working inside their economic institutions.

Increasing the proportion of lateral entries with practical policy experience in developing countries would enhance the possibility that policy innovations might reflect the lived institutional experience of developing countries. It is an organizational reform

with implications for the definition of expertise and the nature of the IMF paradigm. If recruitment of such personnel could be extended beyond the Central Banks and Finance Ministries of the South, the departure from "intellectual monocropping" would be even greater. Economists with extended "hands-on" experience in dealing with the local political processes and involved in building the "broad public ownership" of macroeconomic policies that the Managing Director hopes to achieve (IMF, 2000b: 55) would be particularly useful in diversifying current perspectives.

Some at the Fund would, of course, feel that such a strategy ignores the advantages of closely shared perspectives. Such fears are probably misplaced. Without negating the value of strong general training or the usefulness of shared perspectives developed over long periods of interaction, it remains the case that tightly shared perspectives also have their disadvantages. Small differences become life or death intellectual issues, while innovative alternatives become unimaginable. This may not be a problem if the challenges the organization is facing are stable and homogeneous, but the wide range of institutional variation confronted by IMF and the rapidity of change in its overall environment increase the risks of intellectual monocropping. At the same time, the risk of excessive diversity is small. The Fund could go a long way towards diversifying its intellectual portfolio before the cacophony of excessive diversity would become a problem.

Even though "epistemic communities", particularly in the economic arena, are increasingly global, perspectives developed in local communities continue to be important in shaping economists' attitudes. Survey research has shown that the opinions of economists with regard to policy issues vary

Table 5

**MID-CAREER ECONOMISTS HIRED FROM DEVELOPING AND INDUSTRIAL COUNTRIES BY GRADE LEVEL, 1 JANUARY – 31 DECEMBER 2000**

	<i>Developing</i>	<i>Industrial</i>	<i>Total</i>
A11	0	4	4
A12	7	19	23
A13	14	13	27
A14	7	16	23
A15	1	4	5
Total	29	59	85
Per cent	34	66	

*Source:* IMF.

substantially, sometimes quite dramatically, across geographic jurisdictions, even when only a small set of industrialized countries are considered (Frey et al., 1984). If economists whose training and work experience is grounded in the South had been included in these studies, the already impressive geographic variance would have been even greater. Practical experience in confronting the recalcitrant institutions of developing countries is likely to further increase diversity.

Even serious efforts to increase the recruitment and selective retention of economists with substantial, practical, developing-country experience is unlikely to introduce cacophony. Exceptional proficiency in the mathematical skills required for modern economics would continue to be a criterion for hiring. The most likely "practical experience" can-

Table 6

**MID-CAREER AND ECONOMIST PROGRAMME HIRES**

	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>
Economists programme	41	30	35	31	41	37
Mid-career economists	48	40	34	53	63	67
Total economists	89	70	69	84	104	104

*Source:* IMF.



didates for hire would be central bankers and high-level Finance Ministry officials, who are likely to share the Fund's perspectives as much as they would share those of their colleagues in other Ministries. In so far as recruitment came from the private financial sectors of developing countries, the match with Fund perspectives would be equally close (though the content of the disagreements might be different).

Without exaggerating the degree of diversity likely to be attained, it is still the case that a shift toward a greater proportion mid-career entrants with developing country experience would make a difference, increasing in particular the probability that Fund policies and programmes would take more effective account of the institutional diversity with which the organization has always had to deal. Since developing country EDs themselves often have practical experience in Finance Ministries or Central Banks, increasing the proportion of Fund personnel with this kind of experience might also facilitate the ability of staff to understand the way in which developing country EDs look at policy and programme issues.

Finally, it might be argued that increasing the probability of mid-career entry from developing country positions would also have a salutary externality in its effect on the career calculations of young developing country economists studying in top US graduate schools. Spending some time "at the coal face" in one's home country might be seen as less likely to preclude subsequent international career options, or even to be a way of gaining credentials potentially useful in an international career. Anything that might mitigate the calculus that currently generates such severe "brain drain" from developing countries would be a valuable contribution in itself.

### ***E. Sub-contracting the project of diversification: increased support for developing country researchers***

The Group of Independent Experts that evaluated the Fund's research output in 1999 expressed dissatisfaction over the extent to which the Fund was doing country-specific research on industrialized countries. The panel suggested that such research "does not have sufficient value added", since it replicates work being done anyway in research institutions in the North, and recommended that more research be done on developing and transitional economies (IMF, 2000c: 11, 20). The IMF Directors

endorsed the idea of shifting the focus of research toward topics with more "value added" but did not offer any concrete strategies for increasing the amount of work done on developing economies.

The kinds of staffing shifts that we have recommended might have some effect in this direction, but more a more direct attack on the problem seems in order. The Fund's permanent staff is not the only source of its ideas and expertise. Consultants and contracted research also play a role. The current tendency is for the recruitment of outside expertise to flow through the same networks that produce patterns of permanent staff recruitment, to draw heavily on elite US academic institutions, and therefore to reinforce the paradigms and presumptions already in place within the organization itself. Making greater use of the expertise of developing country-based professionals would require investing effort in building networks and identifying the most talented and reliable researchers. Nonetheless, such extra effort would generate important returns. It would, first of all, provide another avenue through which local knowledge of the distinctive institutional characteristics of developing member could be introduced into IMF thinking. As such it would also enhance the probability that Fund policies and programmes would succeed in generating the "local ownership" that the organization is seeking. Finally, as in the case of mid-career recruitment, it would generate positive externalities, by enhancing the incentives for talented professionals to commit themselves to working in developing country institutions rather than joining the "brain drain". The World Bank's Global Development Network represents one variation on this idea.<sup>11</sup> The Fund could learn from this experiment in developing another variant adapted to its own specific needs.

External subcontracting to researchers based in the South could also be complemented by a programme of setting up a nucleus of temporary, subcontracted researchers inside the Fund. This could be some kind of Fellows or Visiting Researcher programme designed to bring top talent into the organization and focus their work on a research agenda collectively generated by the EDs from the South, along the lines of the current Group of Twenty-Four research initiative. Housing them in the Fund itself, or at least bringing them together regularly to meet there, would allow interaction more directly with Fund researchers. Creating this kind of collective research resource for the South would be an alternative to the idea of assigning limited term research personnel to individual EDs that was introduced under our first proposal.

Each of these five proposals in itself is marginal, but there are obvious synergies among them. Increasing the capacity of developing country ED offices would intensify the “market” for ideas reflecting the experience of the South inside the Fund. Building up developing country divisions in area departments would give developing country ED offices more support in working on individual country programmes. Regional satellite offices would do the same. Increased recruitment and retention of mid-career professionals with practical experience in developing countries would not only increase the diversity of the Fund’s intellectual portfolio, but also increase the pool of staff with the skills and adaptability necessary to make regional satellite offices run successfully. Increased reliance on developing country-based researchers for consulting and contract work would strengthen networks that would facilitate effective mid-career recruiting, just as more developing country-based mid-career recruiting would strengthen the networks necessary for finding effective consultants and outside researchers in developing countries. In combination these reforms would change the character of the Fund’s relationship with the South, on a day-to-day and long-term basis.

## **VI. Conclusion**

None of these suggested reforms is radical. Indeed the Fund has already started moving in the directions we propose here. The proportionately greater expansion of the staff of the Africa Department in the last 10 years recognizes the importance of having more staff focused on areas where poverty reduction is the issue. The initiation and expansion of the Resident Representatives programme acknowledges the importance of long-term immersion in local environments. The creation of the Joint Africa Institute and the Singapore Regional Training Institute acknowledge the importance of more decentralization of Fund activities. Our suggestions extend and complement these existing initiatives.

Despite their consistency with current trends toward organizational reform at IMF, we expect that many who know the Fund, both inside and outside it, may disagree with these suggestions, and we welcome such disagreements. A more open debate regarding the organization and staffing of the Fund would be a healthy development. Transparency and accountability should not be limited to questions of policy. The way in which resources are used inter-

nally, especially as regards the marshalling of expertise, should equally be subject to discussion among IMF members. The rationales for how these key resources are allocated should be made transparent. Management and Governors should be held accountable for the choices they make. If the only result of these proposals for reform is to elicit clear, credible justifications for maintaining the status quo, that would be a salutary result in itself.

Given the modest nature of the reforms proposed, their strongest critics may be advocates of change rather than defenders of the status quo. They are more likely to be dismissed as ineffectual band-aids than rejected as too radical. Admittedly, these reforms would have only a marginal effect on the IMF organizational structure. They would not undermine the meritocratic character of recruitment and promotion on which the Fund justifiably prides itself. Nor would they change the basic paradigm with which the organization approaches problems of macroeconomic stability. Even if all of the proposed strategies were adopted simultaneously, the recruitment and career trajectories of Fund staff would be affected only marginally. Indeed, much of its current effort to integrate emerging market countries into the international financial system would, in all likelihood, proceed on its current course. In all, they are modest proposals compared to the quite radical decentralization recently undertaken by the World Bank.

These reforms are not substitutes for resolving more politically difficult issues, such as readjusting quota allocations to reflect current purchasing power parity economic weights in the global economy, or readjusting charges on Fund financing to reflect the exceptionally low risk and strong conditionality that makes this funding different from private financing. However, while making the IMF organizational machinery more responsive to developing country perspectives may not have the dramatic appeal of major political battles, it does offer important returns.

The reforms proposed here would do three things. First, they would increase the extent to which developing countries perspectives make their way into IMF policy debates and thereby increase the likelihood of developing countries’ experiencing the desired sense of “ownership” vis-à-vis Fund policies and programmes. Second, they would increase the voice of developing countries on the Executive Board, both directly by increasing the capacity of developing country ED offices, and indirectly by increasing the likelihood that the work of other staff

would reflect the concerns of developing country EDs. Third, they would increase the degree to which the Fund contributes to the creation of expert capacity in developing regions, giving qualified economists from developing countries more opportunity to work in their own regions and on problems relating to their own regions.

These are not trivial results. They would contribute to achieving the goals of “ownership” and “participation” which are now seen as crucial to programme success in developing countries. More generally, they hold the promise of improving the Fund’s current record of programme performance in the developing world, which is “uneven”, to put it charitably. They would make the Fund more responsive to the developing countries that have become its most salient constituency and increase the possibility that the Fund might, in addition to smoothing the way for the global expansion of the activities of private financial actors, help to redress some of the inequities that the uneven development associated with globalization has brought in its wake.

## Notes

- 1 On the notion of “voice” see Hirschman (1970).
- 2 Of course, even in the early years of its operation, the Fund’s construction of the “absorption approach” to analysing balance-of-payments imbalances had an important effect in shaping the kind of data that Central Bankers and Finance Ministers in the South paid attention to and the way in which they interpreted its implications (Finnemore, 2000; Polak, 1997). As Finnemore puts it (2000: 9): “Fund staff made important contributions to and ‘created’ knowledge in fields of economics relevant to it work” (see also DeVries, 1987, and James, 1996). The Fund’s ideas were as important, if not more important, than the loans it offered in shaping the policy in the South.
- 3 See, for example, the response of the Fund to the external evaluation on surveillance, which recommended that surveillance should focus “only on the core areas of exchange rate policy and directly associated macroeconomic policies”. In the view of the Fund, this recommendation “ran counter to the demands of IMF members and the international community for more emphasis on interactions among macroeconomic, structural and social policies” (IMF, 2000b: 29).
- 4 See Mohammed (2001) for a more complete discussion. Obviously, poverty reduction is even more central to the role of the World Bank, but the view – popular in some policy circles – that there is a “division of labour” between Fund and the Bank which absolves the Fund from being directly concerned with poverty reduction is not supported either by the policy pronouncements of the Fund’s management and most powerful member or by a review of the Fund’s actual practices.
- 5 For extended discussions of the particular intellectual perspective (and foibles) of economists, see McCloskey (1985, 1994).
- 6 It has been argued that more intense competition from the private sector now makes it much harder for the Fund to recruit and retain top-flight economists and that the Fund’s organizational priorities should therefore focus on countering this threat. The Fund’s own statistics on separations do not provide any dramatic numerical support for this contention. Losses to the private sector account for a minority of resignations and seem to have declined substantially since 1998. However, anecdotal evidence suggests it may be a problem in relation to economists with certain kinds of financial expertise and skills.
- 7 It should also be noted in this regard that Japan, in sharp contrast to the English-speaking industrial countries, is under- rather than over-represented among the staff. In fact, Japan is the most under-represented of all 182 member countries relative to its quota (Lahti, 2000: 23).
- 8 Some would argue that recruitment from a restricted set of institutions does not really lie at the core of the intellectual diversity problem. In their view, IMF’s recruitment practices result in the selection of an excessively homogeneous subset from among the graduates of these institutions and that this, combined with the intensity of intellectual socialization within the Fund, results in a eventual range of views that is much narrower than the range among economists (faculty and students) at the institutions from which the organization recruits. This hypothesis is, of course, very germane to our overall argument, but we could find no systematic data to either confirm or refute it.
- 9 Maximizing the impact of increased staff would probably require recruitment rules that better balance the necessity for EDs to be able to develop an effective “team” against the legitimate desire of the Chair’s constituency to have an input into recruitment of staff. The difficulty of resolving this problem might be considered an argument for creating a pool of staff, rather than attaching additional staff to individual EDs.
- 10 IMF Human Resources staff estimate that out of mid-career economists hired in 2000 about 40 per cent came from universities, 35 per cent from the public sector (mostly Finance Ministries and Central Banks), and 25 per cent from other international organizations or the private sector. About 80 per cent are made permanent at the Fund upon the expiration of their two to three-year contracts.
- 11 For details see the Global Development Network website at [www.gdnet.org](http://www.gdnet.org).

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