Part One

Introduction

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Introduction

How are policies devised by the International Monetary Fund (IMF or the Fund) and the World Bank? Considering the central role played by these two international organizations (IOs) in the post-1945 international economic system, it is not surprising that there is considerable disagreement over what motivates these institutions. For example, critics of the Fund and the Bank argue that they merely do the bidding of their most powerful member, the United States (Babb and Buria 2005: 73; Woods 2006: 379). Indeed this fits current theoretical models that focus on the primacy of (powerful) member states over their IO agents (Hawkins *et al.* 2006). Others argue that the IMF and the World Bank are purveyors of globalization, and act to further the interests of hegemonic capitalist elites through upholding and extending the capitalist system (Bøås and McNeill 2004; Goldman 2005; Moore 2007; Wade and Veneroso 1998). Still others argue that these organizations have power precisely because they are relatively autonomous in their decision-making, which gives them leeway to determine how to implement their mandates (Barnett and Finnemore 2004; Weaver 2008).

This book takes a different tack. It examines the sources, triggers and mechanisms of change in the IMF's and the World Bank's ideas and policies. It undertakes detailed, fine-grained empirical research into the policy-making processes of the Bretton Woods institutions. Analysing the Fund and the Bank in this way allows us to ascertain whether power-based explanations, such as the rationalist principal–agent (PA) model, neo-Gramscian accounts of hegemonic elites or IO autonomy, fit with empirical accounts tracing how and why these international organizations take up certain ideas and turn them into policies that shape the economic development of a majority of states. This book, therefore, investigates the processes by which certain ideas were picked up by these IOs and how they were turned into the policies currently advocated by the Bretton Woods institutions. The volume is constructivist in asking 'how' the

IMF and the World Bank came to own their existing suite of policies and the ideas that underpin them. It seeks to assess the capacity for normative change within the Fund and the Bank while evaluating the strength of their current policies.

In investigating the ability of these international organizations to take up new ideas and turn them into policies, the book makes three arguments. First, that all policies are grounded in ideas, which when traced, come not just from the member states of the Fund and the Bank, but from a variety of actors both inside and outside these institutions. The book therefore investigates where these norms come from and how and why they were taken up by these international financial institutions and turned into globally applicable approaches to economic growth and development. We argue that this process creates 'policy norms' to highlight the importance of understanding how ideas originate and how they shape decision-making in these two IOs. Policy norms are defined as *shared expectations for all relevant actors within a community about what constitutes appropriate behaviour, which is encapsulated in (Fund or Bank) policy.*[1] Norms shape how policies are devised in certain ways and not others. Examining the norms underlying economic growth and development in this way is to unpack how particular issues are considered problems to be solved and how this led to specific IMF and World Bank policy solutions. Bringing these components together through the concept of a policy norm is to analyse how certain ways of understanding and operationalizing economic growth and development became appropriate for the Fund and the Bank.

In this respect, all the chapters in this volume empirically examine where the policy norms of the IMF and the World Bank came from, and identify the triggers and mechanisms that enabled these policy norms to come to fruition. Some of the policy norms came from inside the Fund and the Bank, others from outside. Some came from member states, many did not. Some support the globalization agenda, others do not. Some extend the reach and therefore power of these IOs, others do not. By examining nine policy norms, including capital account liberalization, current account liberalization, debt relief, tax reform and poverty alleviation in the IMF, and environmental safeguards, gender equity, pension reform and new public management in the World Bank, we obtain a more accurate picture of what forces are able to propel change within these international organizations and under what conditions. We systematically analyse our findings in the book's conclusion.

[1] The term 'policy norm' has been used, for example, in Simmons *et al.* (2008), but they do not define the concept and used it interchangeably with policy.

Second, the book challenges us to think more about the power of norms. The book demonstrates how norms come to be seen as socially appropriate for the IMF and the World Bank, to the point where they then devise or revise policies on specific economic growth and development issues that may have previously been outside their domain or way of thinking. In tracing this process, we can point to the power of norms as the norm is translated into a policy, which is then promoted throughout the international political economy. To date, constructivists have examined how international norms emerge and shape states' interests and behaviour (Finnemore 1996). If states adopt new policies and change how they behave, then a norm has causal power. While this is an important insight and one we readily affirm throughout the contents of this book, we want to show that there is more to norms than this. A key constructivist insight is that international norms exert influence on actors' behaviour but actors' behaviour in turn reconstitutes norms. Norms are not immutable structures; they change through collective action. As such, we make the case that policy norms are not uniform in their power; they may gain or lose strength according to the degree to which they are accepted and adhered to.

We identify three stages of policy norm change. First, a policy norm emerges where it is increasingly seen to be the right thing to do by relevant actors to the point where it solidifies as a policy norm. Tracing this process follows much of the constructivist literature on norms and applies it to change in the IMF and the World Bank. Second, a policy norm may then stabilize such that it becomes taken for granted. This is the height of the policy norm's power, and relevant actors accord with the policy norm without much in the way of deviant behaviour or outright opposition. The third stage is a policy norm's decline. We demonstrate that policy norms can wane, where alternative approaches to specific issues emerge to challenge certain ways of behaving. We account for policy norms that weaken either before they have been diffused from the institutions to their borrowers or after they have become entrenched. The policy norm declines, even, in some cases, irrespective of the interests of powerful member states.

This book is not, therefore, an outright celebration of the positive power of norms. We show that not all 'norms' scholarship demonstrates success stories. We examine the strength of the policy norm to ascertain whether it is emergent, has stabilized or is in decline. The volume highlights the relatively under-examined area of norm decline where ways of thinking and acting, in this case in international political economy, are no longer socially accepted. While much of the constructivist literature assumes some norms decline in order to make way for new norms to ascend and reach a tipping point (Finnemore and Sikkink 1998), we explicitly demonstrate how this might occur. We point to policy norms that were powerful in their ascendance but now seem to be declining (chapters by Leiteritz and Moschella, Park, and Lardone) compared with policy norms that are in their initial emergence phase (chapters by Momani, Wodsak and Koch, and Weaver), or policy norms that seem to be stabilizing or at the height of their 'taken for grantedness' (chapters by Vetterlein, Broome, and Seabrooke).

We therefore assess each policy norm's strength, which is based on three constitutive components. First is its formal validity where it has become an international agreement, or been made part of the IO's constitution or Articles of Agreement, its operational strategy, and/or is included in Fund and Bank loan contracts. This indicates a high degree of institutionalization where states agree to make a policy norm binding. Second, a policy norm's strength is based on social recognition, where it is understood as socially appropriate by those inside and outside the IO such that all agree that it is the right thing to do. This is the informal power of the policy norm such that it is readily recognized as accepted behaviour. The third component is the cultural validity of the policy norm where it is culturally adapted to local contexts in the case of IMF and Bank borrowers (Wiener 2007b: 62). Examining the strength of the policy norm in different situations sheds light on how it might be considered robust in various realms. Analysing the different ways actors engage with policy norms gives us a greater insight into how they are understood as strong enough to be taken as given.

Determining a policy norm's strength in this way is not to split the concept of a policy norm to make it more easily measurable. All three aspects are important and all three are ultimately based on the policy norms' intersubjectivity. Yet each facet may lead actors to engage with the policy norm according to different processes even though the actions and responses to the policy norm all stem from the same impulse. For example, promoting the formal validity of a policy norm is an attempt to institutionalize it to make it binding based on the fact that the policy norm has social recognition, while examining the disconnect between an already formally valid policy norm and its social recognition is to examine how a policy norm is losing or gaining informal strength (which in turn may or may not affect its formal validity). Lastly, assessing whether a policy norm that is socially recognized within the Fund or Bank is perceived as culturally valid indicates the policy norm's strength in terms of how a majority of actors involved respond to and accord with the policy norm in domestic contexts (i.e. outside the realm of policy norm formation within the IO). To reiterate, each of these constituent components of the policy norm stems from the intersubjective understandings of the relevant actors over what is appropriate behaviour for the Fund and the Bank, although one or more of the constituent factors may be subject to contestation leading to policy norm change. Which of these three constitutive components is subject to change is detailed in each of the chapters.

Finally, the book aims to locate the policy norms advocated by the IMF and the World Bank within a broader normative framework. While this may be considered unusual for a book tracing the policy-making process within the Fund and the Bank, we think it necessary to recognize that there are broader developments at work. The IMF has shifted over time, sometimes radically, in terms of the policies it promotes (as chapters by Vetterlein, and Leiteritz and Moschella demonstrate), while the World Bank could be accused of development fad-ism – forever taking up new ideas and insights. We show how policy norms emerge, stabilize and weaken. In showing the varying strength of policy norms in this way, we go beyond merely identifying when an idea reaches a tipping point to become an international norm (Finnemore and Sikkink 1998). In fact we take issue with current explanations of norms that suggest a path of norm progression. While we agree that there is more to norms than their emergence and stabilization, we do not subscribe to the idea that norm change and evolution follows a pattern of liberal progressivism as identified by Risse and Sikkink (1999) in their conception of a 'norm spiral'. A norm spiral denotes the evolution of international norms in the international system. For Risse and Sikkink, norms such as human rights emerge and are adopted by a number of actors such as human rights violating states. The norm may have setbacks but over time the norm progresses towards some ideal liberal end-point where all actors globally will recognize the importance of human rights.

We do not incorporate liberal ideals in our understanding of norm change. Instead, we recognize that norms, politically and economically liberal or not, can emerge if enough actors view them as socially appropriate. While we recognize how controversial many of the policy norms in this volume are, we do not advocate on their behalf. Policy norms will decline when enough relevant actors think that they are no longer socially appropriate and this will be indicated through a loss of formal validity, social recognition and cultural validity. Documenting the nine cases herein is not to favour one economic theory over another, nor to subscribe to one ideology over another. Rather the volume seeks to identify the sources, triggers and mechanisms for change that make these nine policy norms possible. Precisely because we reject the progressivism of the norm spiral, we situate our policy norms within the context of a norm *circle*. This is a heuristic device for examining how and why the strength of policy norms changes over time, while recognizing that ideas never fully disappear. In other words, the book promotes the concept of the norm circle as a framework for understanding the status of the separate policy norms, as emergent, stabilizing or declining. While norms can fade away, they may later re-emerge in a new form. This recognizes that ideas never die, they just change form.

In short, the book explicitly makes clear that norms are not merely structures that determine how states behave, rather that norms themselves evolve over time (Sandholtz 2008; Wiener 2008). Although we do not agree with the progressive approach currently outlined by Risse and Sikkink (1999), we recognize that the combination of policy norm change can help constitute a broader shift in understandings of international economic growth and development. This volume locates the strength of the nine policy norms within the norm circle as a means of better understanding the relationship between ideas and the policy formation process. Empirically, the book documents changes to how we understand international economic growth and development.

The remainder of this chapter is structured as follows: the next section identifies a gap in explanations of Fund and Bank behaviour, particularly in relation to (policy norm) change. We identify sources of change within the IMF and the World Bank as norm advocates that operate within material and ideational structures both inside and outside these IOs. The following section highlights the triggers and mechanisms through which policy norm change becomes possible and proposes that we analyse policy norms as existing within the context of a norm circle or as circular, dynamic, social processes that emerge, stabilize, transform and subside. We argue that this is an ongoing process which cumulatively may influence the direction of overall understandings of economic growth and development. The final section briefly introduces the nine cases examined in the volume.

Theorizing the Bretton Woods institutions in the world economy

Why examine the 'policy norms' of the IMF and the World Bank? Despite increasingly volatile international capital markets and recurrent and devastating financial crises, the IMF and the World Bank still play an important role in the global economy. Not only do their policies inform many developing country economic development agendas, but they underpin the international economic order by way of meeting the needs of the Group of Eight (G8) and the Group of Twenty (G20). While much ink has been spilled on these two powerful international organizations, one could argue that we are no closer to understanding how and why they create the policies they do. Scholarly attention towards the IMF and the World Bank is often focused on the institutions' operational effectiveness and demands for reform (Buira 2003b; Paloni and Zanardi 2006; Pincus and Winters 2002; Ritzen 2005; Woods 2006). Much of the literature demonstrates the combined challenges facing these institutions and their inability to change, or details proposals for their improvement (Birdsall 2006; Vines and Gilbert 2004). Few analyses actually investigate how ideas are generated and change within either organization (recent exceptions include Chwieroth 2010; Park 2010; Weaver 2008).

The book deviates from the current literature on these two IOs by demonstrating *how* the IMF and the World Bank arrived at their current position on specific development issues. We provide empirical data by 'opening up' the IMF and the World Bank. Both institutions remain under-studied in terms of how they take up ideas and produce policy. The collection documents how the IMF and the World Bank come to *own* the policy prescriptions they provide for developing countries while some chapters detail their implementation in borrower states. The focus is not therefore on whether borrowers own the policies the Fund and the Bank think they should, but on how the Fund and the Bank thought these ideas and policies were worth owning themselves. In examining this process, the book demonstrates how each policy norm fits within the various stages of the norm circle, thus linking theoretical and empirical research on IOs (Best 2005; Chwieroth 2007b; Park 2005b, 2006; Vetterlein 2006, 2007; Weaver 2007) to the study of norms in IR (Bernstein 2001; Guzzini 2000; Wiener 2007a). This is done by tracing the circular norm dynamic whereby norms emerge, strengthen, weaken and regenerate over time.

The IMF's and the World Bank's policies continue to have great sway in how international economic growth and development is understood. Since the early 1980s efforts by the IMF and the World Bank have focused on devising macroeconomic policy for developing countries using a neoliberal economic model. Often identified with the 'Washington Consensus', policy prescriptions included fiscal discipline, reordering public expenditure priorities, tax reform, liberalizing interest rates, establishing a competitive exchange rate, trade liberalization, liberalization of inward foreign direct investment, privatization, deregulation, and establishing and securing property rights (see Kuczynski and Williamson 2003; Williamson 1999, 2003). When the scope of the Fund's and Bank's activities dramatically increased with the rise of structural adjustment and conditionality in the 1980s and the collapse of communism in the 1990s, critics' voices reached a crescendo at the turn of the twenty-first century, challenging the effectiveness, legitimacy and reach of these institutions.[2] Additions to the neoliberal agenda were made throughout the 1990s as concerns by various interest groups came to the fore, including poverty alleviation, debt relief, gender equality and environmental safeguards amongst others.[3] How and why some of these ideas were taken up by the IMF and the World Bank to become policy norms, and how and why some entrenched policy norms substantially changed requires detailed investigation.

Tracing the strength of policy norms like capital account liberalization and gender equality within the IMF and the World Bank is therefore central to debates over what influences IO action and change. We argue that there is more to these institutions than the power of their member states. The dominance of neorealism and neoliberalism throughout the 1980s and 1990s overshadowed the autonomy and independence of IOs in international policy-making (see Baldwin 1993; Keohane 1988; Mearsheimer 1994/5). Current approaches all now recognize that IOs like the Fund and the Bank have some autonomy in determining their actions. In examining the activities of relatively autonomous IOs, competing research agendas have emerged: the rationalist research agenda focuses (along with neo-Gramscian approaches) on material power and interests in contrast with ideational explanations of IO behaviour and change.

Power- and material-based accounts of IO behaviour and change

Rationalist scholars have established a research agenda using the PA model to examine how to eliminate the gap between member state directives and IO actions (Hawkins *et al*. 2006; Pollack 2003). This establishes a puzzle of how, why and when the Bretton Woods institutions fail to meet (powerful) members' interests (Gutner 2005a; Nielson and Tierney 2003, 2005; Nielson *et al*. 2006). While this is an important question generating a new research agenda, we argue that how financial and development problems and their solutions are socially constructed and historically situated gives greater insight into the specific set of policy norms advocated by the Fund and the Bank today.

[2] See for instance the 'Fifty Years is Enough' campaign (Danahar 1994). In addition, mass protests were also held outside the IMF and World Bank annual and spring meetings in 2000 and 2001.

[3] A debate then ensued as to whether this constituted a Post-Washington Consensus (Stiglitz 1998a, 1998b), moving away from neoliberal tenets, or a 'Washington Consensus Plus' (Williamson 2000: 260), where new concerns were merely added to the neoliberal model. Since the end of the 1990s there has been a shift in development practice (such as the inclusion of gender analysis; Elson 2002: 88–9). This is discussed fully in the Conclusion.

Recognizably, member states are important for setting IO constitutions, agendas, budgets and staffing. However, decisions over how to practise economic development are not solely determined by states when delegating authority to IOs. While IOs such as the Fund and the Bank are relatively autonomous in determining how they will meet their mandates within the constraints states place on them, not enough has been done to understand how and why they make the decisions they do. The argument proposed here is that the Fund and the Bank are permeable IOs that take up and internalize norms from various sources. The role of developed and developing states, other multilateral institutions, and non-state actors such as NGOs helps determine what economic development is and how it ought to be achieved. As we demonstrate throughout the volume, policy norms do not emerge in a singular fashion. We document that the Fund and the Bank incorporate norms that are both internally generated and externally advocated. As a result, Fund and Bank staff may propel specific policies that become policy norms such as capital account liberalization, or they may absorb norms such as gender equality that are manifested by external actors.[4] New policy norms can be initiated by the Executive Board or the management of both organizations, by other norm entrepreneurs in the development community, or from the field of operations.

This demonstrates that policy norm emergence is much more complex than the PA model relationship allows with its narrow focus on member states' instrumental relationship to their IOs. Moreover, rationalist approaches underplay the importance of competing economic ideas propagated within international economic development, such as debt relief and poverty alleviation, that feed into the policy-making process and frame the interests of the various actors involved in policy deliberations (Blyth 2002; Hobson and Seabrooke 2007; Widmaier *et al*. 2007). The contributors here point to the importance of ideas and often non-materially powerful norm advocates in transforming IMF and World Bank policy norms, which may in turn shape international economic development.

In contrast to rationalist PA model explanations of IO behaviour, alternative material explanations view IOs as important for maintaining unequal power relations for state and non-state actors. Neo-Gramscian approaches, for example, argue that a hegemonic bloc of global elites in powerful industrialized states and IOs such as the IMF and the World

[4] The recent shift towards donor harmonization contributes pressure for all bi- and multilateral lenders to follow the same policies, thus reinforcing the power of Fund and Bank policy norms.