

Bringing Power Back in: The IMF's Constructivist Politics in Critical Perspective

Jacqueline Best

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Introduction

One could be forgiven for assuming that constructivism has little place in the study of economic relations or for thinking that at most a rather cautious constructivism is appropriate in such cases. After all, economic theory has provided the inspiration for the very rationalist approaches that constructivists seek to challenge, including neoliberal institutionalist and neorealist theory in international relations and rationalist institutionalism in comparative politics. I will argue precisely the opposite in this chapter and suggest that the study of economic relations, especially political economic relations, not only requires constructivist analysis but actually demands a much deeper and more critical constructivism than has so far dominated political and economic analysis, a kind of constructivism capable of theorizing the central relationship between power and knowledge in international economic relations.

In developing this argument, I will make use of three of the different pathways to constructivism outlined by Rawi Abdelal, Mark Blyth and Craig Parsons in the introduction to this volume: those of meaning, uncertainty and subjectivity. More specifically, I suggest that we cannot gain an adequate understanding of the power relations at work in the contemporary global economy without taking seriously the last of

these pathways and integrating into constructivist analysis some of the insights of the more critical and postmodernist variations of constructivist theory. This chapter therefore not only explores the different pathways to constructivism, but also argues for the importance of building bridges between them.

The Constructivist Turn of the IMF?

Over the past decade, there has been an important sea change in the strategies employed by the international financial institutions (IFIs) and donor governments in their efforts to govern finance and development. The International Monetary Fund (IMF) and the World Bank have both sought to streamline the conditions that they impose on borrowers, adopted a wide range of governance-related conditions, developed the standards and codes initiative, and introduced Poverty Reduction Strategy Papers as an effort at more “bottom-up” or “country-owned” development planning. All of these policy strategies, in their different ways, rely less on explicit coercion and more on the construction of new norms to achieve their ends. This chapter focuses on just one of these new policy strategies—the standards and codes initiative.¹ In the aftermath of the Asian financial crisis of 1997-98, financial leaders, scholars and policymakers all sought to identify the causes of this financial instability and to propose reforms capable of better preventing and responding to such crises—building a “new international financial architecture” (Eichengreen 1999; G-22 1998; Goldstein 1999; Kenen 2001; Meltzer 2000). The IMF’s primary contribution to this new architecture has centered on the

¹ A fuller examination of this broad shift in these various policy strategies and their implications for global governance is the basis of a current work in progress, *Governing the Margins: The Transformation of Global Economic Authority*.

development of an extensive series of international economic standards and codes that it believes all states should eventually adopt (IMF 2001b).

This initiative has had a political price tag. By seeking to foster the convergence of economic governance practices around the world, the Fund sought to play a much bigger role in shaping domestic policies than in the past. Since most of these standards are based on industrialized economies' current practices and have been designed without much input from developing states, they have been challenged by some developing states as impositions on their sovereignty. At the same time, given the voluntary nature of these standards and codes, IMF staff cannot rely on the more direct tools of conditionality to achieve their objectives. It is in this new climate that the Fund's norm-building strategy has come to play a central role as an indirect effort to foster change in developing states. As they have sought to introduce these new standards, Fund leaders have consistently framed these reforms in powerfully normative terms, as a part of a new "global ethics" in which each state takes responsibility for its contribution to global financial stability by adopting sound economic policies.

The Fund's actions can themselves be best understood as an explicitly constructivist strategy—one that reveals elements of three of the four different pathways to constructivism highlighted in the introduction. Fund representatives have sought to develop a "rule-based system" built on international standards because they believe that it will foster stability in the international financial system by giving market participants clear signals about economic behavior; these efforts can therefore be understood in part as a constructivist effort to manage *uncertainty* by fostering stable norms. The standards that the Fund seeks to promulgate, moreover, are best understood as not only regulative,

but also constitutive in nature, reshaping the terms through which market participants will be able to interpret state actions, thus creating a new grammar of economic communication, highlighting the role of *meaning* in international economic relations.

These two pathways to constructivism, through uncertainty and meaning, do not however fully capture the politics of the IMF's strategy. The development and implementation of the standards and codes initiative has been marked by significant asymmetries, as the standards place a disproportionate burden on state rather than market actors, and on developing states in particular. For this reason, it has also been both contested and resisted by various emerging and developing governments. At the same time, and in spite of appeals to a consensus-based process, the Fund has clearly excluded several alternative economic strategies from the outset. As such, the IMF's new standards initiative has as much to do with power as with stability. However, rather than being a simple 'exercise of power', the constructivist aspects of the initiative, the role of norms and the constitutive nature of the new rules and practices, are the central means through which these power relations have been articulated and enforced. As a strategy, these standards and codes are designed not only to alter market actors' behavior, but more profoundly to redefine what it means for developing governments to be good economic *subjects* both domestically and globally.

This chapter develops a constructivism that uses some more critical sociological theory to bring power back in as a central force in its analysis. In doing so, it builds on the work of several contemporary critical scholars that I use to flesh out some of the insights into meaning, uncertainty and subjectivity developed in the introduction to this book. In many ways, the actions of the IMF over the past decade can be understood

using the analysis of Michael Barnett and Martha Finnemore, who have examined the ways in which international organizations (IOs) exercise authority by actively developing and spreading norms—about what constitutes “a refugee”, “development,” or “sound economics” (Barnett and Finnemore 1999: 13-14; Barnett and Finnemore 2004: 58-60). They suggest that IOs exercise this power through a series of micro-level processes: by defining and classifying the objects of their efforts they not only diffuse norms but actively create new ways of naming and therefore acting on the things of this world (Barnett and Finnemore 2004: 31-2). The standards and codes are a perfect example of this kind of effort to not only develop new norms of good practice, but to do so by codifying normal economic behavior. Following Barnett and Duvall (Barnett and Duvall 2005), we can think of this as a kind of productive power that does not simply seek to make certain actors change their behavior but that also actively works to constitute them in new ways.

If we move beyond this International Relations literature and turn to some relevant critical sociological scholarship, we can gain an even clearer understanding of just how international organizations like the IMF work to constitute particular kinds of political and economic subjects. Drawing on the work of Bruno Latour (1986), Nikolas Rose and Peter Miller (1992), William Walters has pointed to the usefulness of their concept of inscription for understanding governance processes (Walters 2002). Unlike the concepts of construction and deconstruction, which tend to emphasize the role of ideas and discourse respectively, inscription focuses on the ways in which concrete institutional practices—forms, procedures, policies—can have significant constitutive effects. The standards and codes initiative includes a range of very specific practices, such as the

preparation and publication of reports indicating countries' degree of compliance with the standards, which have been designed to encourage not only changes in countries' behavior but also to increase their awareness of the norm and of their position in relation to it.

How do these practices seek to constitute a new kinds of economic subject? Here the work of cultural economists, like Michel Callon, (1998) can provide some clues.² Callon suggests that markets, as a particular kind of social institution, require a specific kind of rationality or capacity to calculate. To make something subject to a market logic, one must first transform it by making it calculable in particular ways. Through the standards and codes initiative, the IMF has sought to make best practices in economic governance calculable in the sense of becoming measurable and monitorable. As I will discuss further below, the IMF has tried to make these standards into a new kind of economic data—information that they hope that market actors will incorporate into their assessments of investment risk, in order to create a market-based incentive for governments to comply with these new norms. The standards and codes thus work as what Mitchell Dean has called a “technology of performance,” creating a new metric of economic governance and enabling not just market but also state actors to assess their conformity with it, thus fostering an ever-more reflexive and self-disciplining government (Dean 1999: 179).

All of these scholars in their different ways point to the close connection between political power and institutional expertise, and suggest that the power of international organizations is linked to their technical capacities and in their expertise. While I draw on

² For a more complete overview of the cultural economy literature and an examination of the cultural constitution of the political economy, see: (Best and Paterson 2009). See also: (MacKenzie 2004; MacKenzie 2006; Thrift 2000; Thrift 2001)

these insights in this chapter, this study also raises some initial questions about this literature—particularly its emphasis on the omnipresence of technical approaches to governance.³ By focusing on the explicitly normative character of IMF policy after the Asian crisis, my analysis suggests that these other authors underplay a key aspect of institutional strategy by focusing too narrowly on the logics of expertise, calculation and objectivity. Moreover, my analysis identifies some of the limits of institutions' efforts to govern technocratically—by emphasizing the various forms of resistance and the tensions that the Fund's efforts have encountered.

We are now a decade away from the creation of the first standards and codes, and are currently undergoing another, even more devastating, financial crisis. What have the intervening years taught us about the IMF's efforts to build a new financial architecture on constructivist foundations? I will suggest that events to date have revealed some key limits to the standards and codes initiative at both the domestic level, where compliance has been patchy, and at the international level, where market actors have not paid much attention to the standards. While these results do not challenge the constructivist character of the IMF's strategy, they do raise important questions about its effectiveness on the ground. Moreover, as I will suggest in my conclusion, the current financial crisis reveals some of the very real political and economic consequences of the Fund's chosen strategy—the global costs of the strategy's asymmetrical emphasis on emerging markets and its neglect of more profound problems at the heart of the industrialized world.

³ I am only able to raise these questions in a rather brief and preliminary form in this chapter. I have provided further elaboration of the possibilities and limits of some of this literature in (Best 2008), and will develop this analysis further in *Governing the Margins*.

The IMF's Standards and Codes Initiative

If we do indeed live in a constructivist world, we should not be too surprised if we find that international actors have been practicing a constructivist politics. This is, in fact, what the IMF appears to have been doing recently in its efforts to reform practices of international financial governance; adopting constructivist strategies in order to stabilize international financial practice. While it may seem strange at first to speak of a constructivist *strategy*, in contrast to a constructivist *approach*, such a use of the term is quite consistent with constructivist insights.

Constructivists have long argued that realist theory does not simply *explain* existing inter-state relations but instead works to *constitute* a realist climate of mistrust such that those who interpret other state actions through realist lenses will tend to act according to realist dictates (Smith 2004; Wendt 1992). Similarly, any actor or institution that takes ideas and norms seriously and believes that they can have practical effects is likely to pursue initiatives that seek to make use of them to achieve their ends, thus adopting a constructivist strategy.⁴ The use of the term strategy also has three other useful effects: it foregrounds the political character of the exercise; it emphasizes the agency that is involved; and it reminds us of the possibility of failure—or at the very least of unintended consequences.

In the aftermath of the Asian financial crisis of 1997-98, the IMF was forced to admit that something had gone terribly wrong. No one had anticipated a crisis of that

⁴ It is worth noting that it is not necessary that actors pursuing a constructivist strategy be familiar with specific constructivist authors or theories. Instead, it is only necessary that they recognize the central and constitutive role of norms and ideas and that they act accordingly for their actions to take on a constructivist logic. For a discussion of the norm-diffusing behavior of international organizations, see: (Barnett and Finnemore 2004: 31-34)

magnitude (Feldstein 1998; Glick 1999; Wade and Veneroso 1998). Moreover some analysts argued that the Fund itself had actually exacerbated the crisis through its interventions (Sachs 1997; Stiglitz 1998). The call went out for the development of a “new financial architecture” designed to prevent most crises from occurring, and to respond more effectively when prevention failed (Kenen 2001). After a prolonged period of self-examination, the Fund developed a three-point plan, designed to prevent crises from occurring in the first place, to develop a more effective response when they do occur, and to facilitate the resolution of international debt once crises had passed. Of the three elements of the Fund’s plan however, only the preventive strategy has gained any real momentum.⁵

The Fund’s efforts to prevent future crises centered on the development of a wide range of international standards and codes on economic “best practices” (IMF and Bank 2003). Developed by the IMF and the World Bank together with various private international agencies such as the Financial Stability Forum, these standards now cover twelve different issue areas, ranging from fiscal transparency to corporate governance.⁶ In developing them, the Fund and World Bank have sought to define international standards in a range of key areas, to encourage member states to adopt them voluntarily, to assess their compliance with the standards and to make that information available to

⁵ The Contingent Credit Lines, which were to subject states to a more rigorous pre-screening in return for faster and more substantial aid, were created in 1999 and allowed to expire in 2003 without a single country signing up. The Fund’s proposal for a Sovereign Debt Restructuring Mechanism was also dropped from the agenda in 2003.

⁶ The full list includes standards in the areas of auditing, banking supervision, corporate governance, data dissemination, insolvency and creditor rights, accounting, insurance supervision, fiscal transparency, monetary and financial policy transparency, payments systems, security regulations, and anti-money laundering and countering the financing of terrorism.

investors through the publication of Reports on the Observance Standards and Codes (ROSCs) (Bank 2004; IMF 2004).

The new standards are designed to respond to two of the perceived causes of financial instability: the failure of emerging markets to provide adequate information to financial markets and, more seriously, the structural weaknesses in their economic governance practices. These standards and codes attempt to tackle both problems by providing markets with better information through the publication of the ROSCs and other data and by creating the incentive for states to reform their financial institutions and practices to conform to the standards. In Callon's terms, they therefore seek to make good economic governance calculable in new ways, so that it can become an object of market interest and ultimately discipline (Callon 1998).

This development of universal standards was more than simply a crisis-prevention strategy. It was the central tool in the Fund's more ambitious strategy to reform international and domestic financial governance.⁷ In his opening remarks to an IMF/World Bank Conference on International Standards and Codes, then IMF Managing Director, Horst Köhler, explained what is at stake in this new strategy:

While standards and codes deal with highly technical matters, there is nothing narrow or technical about their purposes. Standards and codes are an important tool for achieving the main objectives of the Fund, namely to promote sustained growth, which is essential for reducing poverty in member countries, and greater stability in international financial markets. They are an integral part of the Fund's work on crisis prevention. But they are also crucial for our efforts to help member countries strengthen their financial systems and take advantage of the opportunities of global capital markets (Köhler 2001).

This passage reveals the different dimensions of the IMF's new governance strategy.

Köhler's mention of the goal of reducing poverty underlines the Fund's belated

⁷ I have provided a more detailed account of the role of Executive Board deliberations in shaping the policy in: (Best 2009a)

recognition of poverty-reduction as part of its mandate in the aftermath of the Asian crisis. The Fund's second major objective, stabilizing international financial markets, is not new. Yet the scope of their actions is novel. By working to bring diverse economies into conformity with a single set of international standards, this new initiative seeks to achieve international stability by reforming domestic institutions (Best 2003). Finally, Köhler's last phrase speaks of the IMF's continued belief in financial liberalization as the ultimate means of achieving all of its objectives, economic growth, poverty reduction, and financial stability. The economic logic underlying the Fund's standards and codes thus remains an Anglo-American laissez-faire prescription for sound economic practice.

Given this, it is through the development of new international standards and codes that the Fund sought to internationalize and institutionalize, not only a particular set of practices, but also a specific vision of economic order. It is the second aspect of this project, its normative and discursive side, that has been the most crucial and the most difficult. This is because the Fund's vision for financial governance has been contested. The conference at which Köhler made the remarks cited above was organized specifically to address some of the criticisms of developing countries, a forum set up, as Köhler suggests in his comments to the representatives of these economies, "to hear your concerns and learn how we can help to make standards work for you" (Köhler 2001). In this contested context, the Fund's strategy must be understood not simply as a technical process but also as a political and normative strategy designed to establish legitimacy for a particular form of international financial governance by, in part, constituting states as responsibility-bearing subjects (Dean 1999: Ch. 8). In short, it has adopted a constructivist strategy in its efforts to reform international financial governance. In the

following sections, I will examine first the normative and then the political dimensions of this constructivist strategy.

The IMF's Normative Strategy: Constructing a Rule-Governed System

One of the most striking aspects of the statements made by Fund representatives in the aftermath of the Asian crisis was their attention to the issue of legitimacy.⁸ Their speeches were not only explicitly normative, relying on the concepts of solidarity, responsibility, citizenship and ethics, but also drew heavily on the language of deliberation and consensus-building.⁹ This turn to an explicitly normative discourse is evident in statements of successive IMF Managing Directors: for example, in Michel Camdessus' focus on "solidarity and responsibility" (IMF 1997), in Horst Köhler's discussion of the need for a "global ethics" (Köhler 2002; Köhler 2003a), and in Rodrigo de Rato's claim that a reformed trading system is "not only morally right but makes economic sense" (Rato 2004a).¹⁰ Normative discourse also became common in staff documents, particularly those relating to the Poverty Reduction Strategy Papers (PRSPs) and the revised guidelines on conditionality, as well as those reflecting on long-term Fund priorities (IMF 2001a; IMF 2002a; IMF 2002b; IMF 2005).¹¹ As one such

⁸ For a discussion of the role of legitimacy in financial governance, see: (Seabrooke 2006) On the IMF's legitimacy, see: (Best 2007)

⁹ I have discussed the explicitly moral nature of Fund representatives statements and staff documents in much greater detail in: (Best 2005)

¹⁰ See also:(Boorman 2003; Camdessus 2000; Camdessus 2001; Krueger 2004; Rato 2004b)

¹¹ This explicitly normative language can be found in a wide range of Fund documents, ranging from reports on Poverty Reduction Strategy Papers and Article IV consultations to Public Information Notices on Board decisions and research papers. In fact, "Globalization: A Framework for IMF Involvement," prepared by IMF staff, (IMF 2002a), is one of the most explicitly normative of the documents that I have found, providing a kind of a normative vision to guide Fund work on "making globalization work better." Nonetheless, this moral turn is most evident in the speeches made by the Fund's leadership.

document states, “The greatest asset that the Bretton Woods Institutions have in fulfilling [their] objectives is their culture of consensus-building” (IMF 2002a). At the same time, some senior staff have noted that there has been a shift in global norms that has enabled the Fund to take a stronger stance on certain politically and morally charged issues such as corruption, and have led the institution to broaden its mandate to include poverty-reduction as a central goal.¹²

Your Loan, Our Rules, Your Problem

One of the forms that such changes have taken is a new emphasis on “country ownership.” After facing persistent resistance to IMF conditionality and World Bank structural adjustment policies over the past few decades, both organizations have sought to change their strategy. Research undertaken by staff at the IMF, the World Bank and the British Department for International Development (DFID) all showed that excessive conditionality was having perverse consequences (Ahmed 2001; Bank 1998; DFID 1997): “If conditionality is excessive, it leads to unnecessary political fights that are to the detriment of the programs.”¹³ Or, as one IMF representative noted, “we have learned that good policies are unlikely to succeed if they are simply imposed from outside” (Flemming 2002). Yet, this was precisely how the standards and codes were viewed by many developing country governments: as an imposition. Köhler admitted as much in his opening remarks at the conference on standards when he suggested that “our members will not fully own this process unless they feel that standards are relevant to them”

¹² Interviews with two senior IMF staff members, August 25 and 29, 2005.

¹³ Interview with senior IMF official, August 2005 and interview with former IMF Executive Director, September 2006.

(Köhler 2001). In the face of this resistance, the IMF undertook efforts to convince member states of the benefits of international standards by working to build a new set of international financial norms.¹⁴ In doing so, the IMF leadership both recognized the importance of shared understandings and sought to construct a new social purpose in which these international standards would not only be accepted as efficient but would be accepted as good by the world's economies.

A central part of Fund representatives' norm-building strategy has been their emphasis on the importance of creating a rule-governed international financial system. Part of the value of the new standards and codes, they argued, lies in their capacity to make "the rules of the game" in international finance clear and explicit (Köhler 2002). The goal here was not simply to recognize pre-existing rules but rather to create new ones through the development and diffusion of new practices. Thus, after noting that the international financial system lacked the kinds of formal and explicit rules governing economic behavior that existed at the domestic level, Managing Director Michel Camdessus argued for "the need to establish at the international level the discipline that has progressively come to prevail in domestic markets" (Camdessus 1999b).

One the central aims of these new rules was reduce economic uncertainty. Many of the most influential interpretations of the Asian financial crisis focused on uncertainty as a key culprit: because of structural defects in the Asian economies, it was argued, there was insufficient information available to markets about their strengths and weaknesses, leading them to assume the worst once the crisis struck. As an IMF issues brief on standards and codes noted: "For developing countries to be more fully integrated into the

¹⁴ For an interesting discussion of the role of persuasion in global governance, see: (Widmaier, Blyth, and Seabrooke 2007)

global financial and economic system, ways must be found to reduce the risk and uncertainty, and to assure investors that their investments in these countries are as they seem” (IMF 2001b). All of the standards work on the assumption that greater transparency in economic policy-making, accounting and banking practices will produce more stable economic outcomes by providing markets with necessary information (Camdessus 1999a; IMF 1998). In constructivist terms, the IMF sought to develop new formal rules and informal norms to better coordinate market actors’ actions in the face of significant global uncertainty.

These rules do more than create clarity for pre-existing agents however. They are intended to constitute new state interests and identities, to create a particular kind of “normal state” that is defined in large measure by its support for a particular kind of free-market economy. These standards and codes were thus designed not only to provide a *standard* against which to measure the performance of different economies, but also to encourage the *standardization* of states’ financial institutions and practices. This transformation, moreover, is to be achieved by changing the shared understandings through which economic actors interpret one another’s behavior—standards that are to be used both by the IMF in its evaluation of state behavior and also by private creditors in their development of country risk assessments (IMF and Bank 2003: 4; Köhler 2001).

In the terms of meaning-oriented constructivism, these rules therefore provide market actors with guideposts for interpreting economic actions. They not only regulate state behavior however, they also constitute a new grammar through which their actions can be understood. Some of the standards may simply codify and elaborate existing economic norms, while others introduce new norms, making corporate governance and fiscal

transparency, for example, new watchwords for economic soundness (Barnett and Finnemore 1999). The ultimate goal, Köhler suggested, was to create a “culture of credibility” in order to attract investment to developing economies (Köhler 2003a). In other words, the Fund’s strategy involved changing both practice and perception by redefining the terms of sound economic behavior.

The policy was also designed to change domestic economic practices, ensuring that they “conduct their economic and financial affairs in prudent and transparent ways” for the sake of global financial stability (IMF 2001b). These changes were to take place not through the usual, more coercive IMF practice of imposing conditions in return for financing, but through two indirect routes. First, markets’ new attention to the ROSCs should lead them to discipline errant states and reward compliant ones. Second, governments’ own attention to their performance with respect to the new norms should make them more reflexive about economic governance, leading them ultimately to discipline themselves (Dean 1999: Ch. 9).

This is a constructivist strategy in at least three different senses: Fund leaders recognized the pervasive and complex *uncertainties* of the global economy and sought to manage them through the development of stabilizing norms; in order to do so, they worked to constitute a new set of economic *meanings* through which market actors were encouraged to interpret one another’s actions; moreover the ultimate goal of this strategy was to transform developing states and other economic *subjects* by encouraging a particular kind of self-discipline, and by normalizing certain forms of economic identity and practice and by excluding others.

The Politics of the IMF's Constructivist Strategy

Why did the IMF develop this new regime of financial governance? And why has it engaged in a constructivist politics in order to do so? As Köhler noted in the statement cited above, the Fund has argued that its goals are to foster growth and to increase international financial stability. While I will not contest this claim, I will suggest that the politics of doing so are not fully captured by this statement. The standards were indeed designed to increase financial stability, but on certain very narrow terms and at a significant cost to certain states. Indeed, in pursuing this particular standards-based strategy, Fund leaders excluded other alternatives that might have actually achieved their stated aims more effectively.¹⁵ They also chose a strategy that carried particularly high political costs for emerging economies and developing states. They used a constructivist strategy of norm-building not simply to legitimize these choices, but also as a way of putting them into practice. Power and knowledge have thus been combined in the Fund's standards initiative in a way that has attempted to reconfigure the form of economic hegemony in international finance.

As Stefano Guzzini argues (Guzzini 2005: 511) making a claim that someone or something has exercised power is to suggest that things might have been otherwise. If we are to determine whether the Fund has exerted power in this instance, we must therefore consider the counterfactuals, and ask what other response to the Asian crisis could have been possible—and effective. Was the international standards initiative the best means of attaining the objectives that the Fund had identified for itself, greater financial stability and reduced poverty through economic growth? It was certainly a very indirect approach

¹⁵ An alternative that, as I will suggest below, might also have avoided or at least mitigated the current crisis.

to achieving these goals. Rather than seeking to tackle the problem of unstable capital flows directly by providing states with new tools for its regulation and perhaps even exploring the possibility of new international institutions for managing them, the Fund opted for an indirect approach based on domestic institutional reform.

In doing so, the IMF management largely excluded a whole range of more direct options: capital in-flow controls, transactions taxes, “trip wires” and “speed bumps” that would have given domestic and international institutions more options for responding to financial instability. These more heterodox practices would have shifted some of the burden of financial stability back to markets themselves, while giving states new tools for managing capital movements when necessary. A number of developing economy representatives and scholars did argue for more attention to such more direct approaches to stabilizing financial flows, particularly through the G-24 and the United Nations Conference on Trade and Development (UNCTAD).¹⁶ Ilene Grabel (Grabel 2003) has also suggested that this kind of strategy could potentially have prevented or at least moderated the Asian financial crisis. Moreover, in the context of the current financial crisis, it is hard to avoid the conclusion that a few more “trip wires” and “speed bumps” might have avoided some the excessive risk-taking that dominated the decade since that crisis. Yet, apart from a cautious opening to capital in-flow controls as a temporary strategy, the Fund neglected such direct means of achieving its stated ends, opting instead for an indirect strategy of domestic institutional reform. As the accepted response to the Asian financial crisis, the standards and codes strategy was based on a politics of

¹⁶ The UNCTAD’s G-24 Discussion Paper Series is largely critical of current attempts to reform the international financial architecture. See, for example: (Epstein, Grabel, and Jomo 2004; Mohammed 2001; Ocampo 2001; Pistor 2000)

knowledge that narrowly defined the terrain of acceptable economic ideas and excluded all others as not just heterodox but illegitimate.

Asymmetry, Uncertainty, and Creating Economic Subjectivities

The Fund's choice of a particular reform strategy, moreover, had certain political costs attached to it, particularly for poorer economies. Both World Bank and Fund representatives described international financial stability as a global public good for which all financial actors are economically, and morally, responsible (Bank 2004; Köhler 2003c; Krueger 2003). A closer look at the logic behind these standards, however, reveals the asymmetrical nature of this responsibility. This asymmetry works on two different levels, placing the burden of reform on domestic rather than international institutions, and on developing rather than on developed economies. International standards were supposed to achieve financial stability by working at both international and national levels (Bank 2004). Yet the tactics used at each level were very different.

Domestically, this initiative was designed to achieve stability "by encouraging sound regulation and supervision, greater transparency, and more efficient and robust institutions, markets and infrastructure" (IMF and Bank" 2003: 6). The ultimate goal of the standards initiative is to bring financial institutions and practices into line with these new international norms. This may not appear to be a radical strategy but it is in fact unprecedented in the scope of influence that it has granted the IMF. In the past the Fund has been content to focus on encouraging changes in economic policy; now they are

interested in changing the institutions themselves.¹⁷ Even though the standards and codes are ostensibly voluntary, in the end the objective of the strategy is profound and permanent institutional change.

At the international level, the standards are presumed to foster stability “by facilitating better-informed lending and investments decisions, greater transparency, improved market integrity, accountability and policy credibility, and by reducing vulnerability to crises” (IMF and Bank" 2003: 6). While this appears at first glance to be an ambitious strategy, those elements that are actually international are quite minimal: market integrity, accountability and policy credibility are all to be achieved at the domestic level. Internationally, the strategy is almost entirely about increasing information in order to reduce uncertainty: by providing the markets with better data, in the form of the ROSCs, the Fund hopes that investors will make better decisions, both entering and exiting domestic markets without excessive exuberance or panic.

This is not a bad idea, but it is a rather limited one. It places enormous faith in the markets’ capacity to use information efficiently and intelligently and provides few new international tools for responding in cases where they do not. It also assumes that the complex and lengthy process of implementing standards and then assessing compliance can be adequately grasped and used by financial markets. Yet during the Asian financial crisis, investors actually ignored some crucial information that contradicted their optimistic expectations.¹⁸ Moreover, as I will discuss further below, the IMF and World

¹⁷ Rodrigo de Rato, for example, the Managing Director from 2004-2007, has suggested, “The gains achieved in macroeconomic stability need to be *entrenched in policy-making processes and institutions*, such as medium-term fiscal frameworks and independent central banks.” (Rato 2004a) See also: (IMF 2002c; IMF and Bank" 2003: 13-14)

¹⁸ The Bank for International Settlements noted in their report on the Asian financial crisis: “In spite of the ready availability of BIS data showing the increasing vulnerability of some of these countries to a

Bank's own internal evaluation of the standards and codes initiative indicates that market actors have not in fact made much use of the ROSCs (IMF and Bank 2005a).

The Fund's strategy for increasing international financial stability was also clearly asymmetrical at a further level, as it sought to place much of the burden of reform on developing and emerging economies. The standards were consciously modeled on the practices of what Camdessus has called the "most advanced economies," and therefore often diverge significantly from the practices of many non-Western countries (Camdessus 1999a). The costs of compliance are therefore much higher for developing and emerging economies than for industrialized ones (Mosely 2009; Mosely 2008).¹⁹

There were therefore not only two pillars to the IMF's plans for a new international financial architecture, one oriented to international markets and the other to domestic institutions, but also two different kinds of constructivist strategy at work. The logic underpinning the international dimension of the standards and codes initiative has been primarily concerned with international stability and the problem of uncertainty; it has sought to manage market uncertainties through the provision of further information and the development of new economic norms in the hopes that this will enhance global stability. On the other hand, the domestic dimension of the initiative has been concerned with redefining not just norms but the "normal state," and in doing to transform developing states' institutions and ultimately their identity and subjectivity: who they are and thus what responsibilities they have in the global order.

sudden withdrawal of short-term international bank loans, the volume of these loans simply kept on rising. Other evident problems, such as growing current account deficits and declining rates of return of investments, were similarly ignored"(BIS 1998: 8). I provide a more thorough analysis of the implications of this failure in the context of the current subprime market crisis in: (Best 2009b)

¹⁹ There is of course an additional irony in the fact that it is these same "advanced economies" that are at the heart of the current financial crisis—a point that has no doubt not been lost on emerging market leaders.

This second strategy has sought not only to develop new economic norms through the ROSCs, but also to exclude other kinds of economic knowledge as unreliable. Alternative proposals for a global financial architecture, which might have achieved global stability more readily, all the while retaining a greater measure of domestic autonomy, were excluded as viable options. While a focus on uncertainty-based constructivism can help us to unpack some of the assumptions implicit in the IMF's standards and codes initiative, it is only by attending to the links between power and knowledge and the capacity of economic norms to constitute new kinds of economic subjects that we can recognize the fact that the Fund has not just been pursuing a constructivist strategy, but a constructivist *politics*.

The Limits of the IMF's Constructivist Strategy

I suggested earlier in this chapter that the concept of a constructivist strategy was particularly apt because it allowed for the possibility of resistance, unintended consequences, and even failure. How successful then has the IMF's constructivist strategy been? Although it is still too early to judge longer-term effects, a decade into the standards and codes initiative's implementation, it is possible to draw some initial conclusions. As noted above, the international pillar of the policy depended on market actors factoring countries' compliance with standards and codes into their assessment of countries' credit-worthiness, and assumed that this would affect interest rate spreads and create an incentive for government compliance. Yet, what is most striking about the response to the standards and codes is the lack of market interest in the ROSCs. This conclusion has been drawn not only by scholars (Mosely 2003) but also by the IMF staff

themselves in their 2005 review of the initiative (IMF and Bank 2005a; IMF and Bank 2005b).

The IMF report concludes that where market participants have paid attention to the standards, it has been primarily in the form of third-party private sector data, such as the EStandards Forum, which simplifies the complexity of the ROSCs.²⁰ Yet even with market participants integrating this limited information into their risk assessments, the evidence on its impact on market spreads is inconclusive at best (Cady 2004; Christofides, Mulder, and Tiffin 2003; Glennerster and Shin 2003; IMF and Bank 2005b).

The success of the second, domestic, pillar of the initiative is more difficult to judge, since its effects on domestic economies necessarily involve gradual domestic-level changes. Yet so far the evidence suggests that it has been mixed at best. By February of 2008, just under three quarters of the IMF's members had completed one or more of the twelve standard and codes modules, with 76% of them publishing the resulting ROSC (IMF 2008). This rather general statistic ignores some significant variation in the level of compliance, however, and says nothing about the broader effects of the initiative. As Layna Mosely notes, overall levels of compliance as indicated by EStandards remain relatively low (Mosely 2008: 4). Turning to the ROSCs themselves, she goes on to suggest "Much of the information presented in ROSCs, then, calls into question the success thus far of the standards and codes effort, as well as the suitability of these standards for middle- and low-income countries." Mosely suggests that one of the main

²⁰ As I have discussed at greater length elsewhere, the inability of market participants to make use of more complex information raises some interesting questions about transparency-based financial reforms that depend heavily on markets making effective use of complex information (Best 2009b).

reasons for the unevenness of compliance is the lack of fit between the standards (based on Western economies) and emerging and developing economies. Another is domestic politics: in the face of significant costs of implementing the sometimes ill-suited standards, some governments have resisted (Mosely 2008: 6-7). Both of these explanations suggest that in spite of IMF efforts to represent the standards and codes initiative as universal and necessary, emerging and developing countries recognize the political costs of the policy and have been resisting them.

Conclusion

How is it that a financial governance strategy based on constructivism, with its emphasis on ideas, norms, cooperation and consensus-building, could be the vehicle of such unequal power politics and provoke such resistance? In fact, it is no coincidence. Power does play a central, if generally under-theorized, role in constructivist theory and practice.²¹ In this case, power and norms have come together in a very potent combination.

The Fund's constructivist strategy is itself the vehicle through which power relations have been articulated. The definition of key ideas and norms, the standards themselves, together with the various concepts like ownership, public goods, level playing fields and responsibility, which surround them, was itself a power-laden process (Barnett and Finnemore 1999). So was the definition of the rules of the game. It is no accident that the standards have been developed almost exclusively by industrialized states and

²¹ Some notable exceptions to this neglect of power include: (Barnett and Duvall 2005; Guzzini 2005; Guzzini 2006)

modeled on their own economic practices. Nor should we be surprised when emerging market countries exhibit some resistance to these standardizing efforts.

Moreover, to push Barnett and Finnemore's insights a little further, it is not simply in the definition of key norms and rules but also in the identification of what is ideal and what is real, that the power lies. Alexander Wendt has famously resisted the suggestion that it is "ideas all the way down," arguing instead that there exists a "material substrate" or a "rump materialism" derived from the individual's and the state's need for basic survival, which precedes such social interaction and interpretation's term (Wendt 1992: 402; Wendt 1999: Ch. 3). Yet in this case, it is precisely how key figures have defined certain things as part of the "material substrate" that has established the limits of debate. IMF staff and leaders have defined financial markets and the processes of globalization as material primitives beyond the scope of ideas. While Köhler and Camdessus suggested that it is possible to introduce new rules of the game to influence their course, they did not treat these processes as themselves inherently rule-governed and therefore social and mutable.²² They thus excluded from consideration those alternative policy courses that have sought to redefine the rules of those market processes themselves, like the heterodox alternatives proposed by Grabel, as unrealistic.²³

It is in the constitutive nature of the standards, however, that the power relations implicit in the IMF's constructivist strategy become most evident. These standards were designed not only to regulate but also to constitute state and market actors' identities,

²² For example, Köhler (Köhler 2003b) prefaced his defense of the value of "internationally recognized ground rules for participation in globalization," by suggesting that they are necessary because "market forces alone do not suffice," treating these same forces as real in a way that the rules are not.

²³ They are therefore not as radical in their constructivism as John Maynard Keynes, who saw the possibility of reconstituting the patterns of consumer and investor activity through the creation of public norms of economic behavior (Best 2008).

creating a particular kind of normal politics and economics. The very imposition of standardization on developing and emerging economies is clearly an expression of power. That power takes some very straightforward forms, when, for example, these standards were integrated into the conditions of stand-by arrangements, in spite of their putative voluntary nature.²⁴ The power to standardize also takes subtler forms, however. As constitutive rules, the standards were intended to shape a new grammar of economic perception, by providing market actors with new definitions of economic soundness, and by making government compliance with those norms calculable in new ways. By persuading states to publish ever rising volumes of information on their adherence to these standards, the Fund created one more incentive for governments to discipline themselves, and granted financial markets one more potential tool for disciplining errant states.

Yet, the results to date suggest that this particular constructivist strategy has been facing an uphill battle, in the form of active resistance and non-interest from some of the key market and government players they have sought to govern. In fact, all three of the pathways to constructivism have encountered some sort of obstacle: the market participants whose role was vital to ensuring the standards help to manage *uncertainty* have not paid much attention to the ROSCs. Governments have both explicitly and implicitly challenged the legitimacy of the Fund's efforts to redefine sound economics, thus undermining their attempts to govern through *meaning*. Through their passive and active resistance, both market and government actors have also undermined some of the strategy's effectiveness in constituting a different kind of economic *subjects*. Such

²⁴ Negotiations for standby agreements with Ecuador, Ghana and Brazil have included references to ROSCs (Schneider 2003).

obstacles do not throw into doubt the constructivist character of the IMF's strategy; they do however raise interesting questions about its effectiveness. In doing so, moreover, such forms of resistance also suggest that those scholars interested in charting the role of technical practices and bureaucratic expertise in enabling institutional authority—like many of those I have drawn on in this chapter—should also pay careful attention to the limits of such strategies.

Finally, it is important to remember that although the IMF's efforts to build a new international financial architecture may not have met their intended objectives, they have nonetheless had some significant unintended effects—as the current financial crisis has demonstrated. A full accounting of the links between the standards and codes initiative and the current financial crisis would require another full essay.²⁵ It is nonetheless worth sketching a few interesting implications in the guise of a conclusion to this one.

The standards and codes initiative was a key part of a broad strategy to manage the financial system by stabilizing emerging market economies. In focusing on these economies, rather than industrialized countries, and by focusing on government transparency at the expense of market transparency, the IMF effectively missed the warning signs of the current financial crisis. Although the Fund did try to gain legitimacy for its post-Asian crisis strategy, the asymmetry of the policies undermined these efforts, and did little to counter a broad-based rejection of the IMF by emerging market states (Best 2007). One of the major expressions of this rejection was the decision by many emerging market states to build up huge reserves to avoid having to rely on the institution—the same reserves that helped to fuel the consumption-driven excesses of the

²⁵ And is in fact the basis of another essay: (Best 2009b).

West and to precipitate the current crisis. Moreover, by excluding certain alternative proposals as unthinkable—because they would include more government role in the economy, would slow liberalization too much, and would hamper growth—the IMF and other financial agencies also missed the opportunity to prevent or at least mitigate the current economic collapse. It is only after facing the catastrophic losses of the current crisis that it has become possible to consider some of these same alternatives as thinkable.

The battle is already raging over what new global norms are needed to sustain a more stable international financial system. Financial and political leaders are once again framing the debate in normative as well as technical terms (AP 2009; Barroso 2009), and they are beginning to recognize the importance of gaining more legitimacy for their proposals if they are to obtain the support of the all-important emerging market economies (G-20 2009). While there may be a little more reflection and debate about what constitutes a sound economy, efforts are already underway to define the new “normal” in financial governance. Moreover, whether we look at statements from the April 2009 G20 Summit (G-20 2009), the Obama administration (2009), or the IMF itself—which has called for a “binding code of conduct across nations” (Davis 2009)—it is clear that some kind of global standards will play a major part in efforts to normalize global financial practices. However, it is not yet clear what role the existing standards and codes initiative will play in the global financial governance system that is developed in the aftermath of this financial crisis. Nor is it clear to what extent this or any other IMF strategy will retain its indirect character or rely on the blunter forms of international power. What is clear, however, is that the construction of power and knowledge as a

distinct politics will continue to play a vital part in any future global economic governance system.

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