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# Understanding Organizational Change

*A case study of IMF evolution from 1945 to the late 1980s*

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# Abstract

This thesis examines the causes of change and the process of change within international organizations. By using a method and theory derived from a study by Ernst B. Haas I have examined the causes of why, according to Haas, IMF is a case of successful organizational learning. By applying Haas' theory on IMF at different points, 1945-69, 1971-79 and the 1980s, of time I reached the conclusion that IMF has undergone change through first an adaptation and then a learning process. The thesis also tests Haas' theory empirically; Haas identifies three types of models of the organization during this period; however I see the change as a step from organizational adaptation to learning with a transition period in between. I argue that the answer to my problem, "What is (are) the cause(s) for IMF being a case of successful organizational learning?", is the introduction of the Second Amendment in the Articles of Agreement and its emphasis on surveillance. With the IMF's realization, due to earlier experiences, that adjustment and not financing was the key to solve the debt crisis of the 1980s learning occurred. The adjustment took place through IMF conditionality, which Haas views as the cause for learning. What I found in my study was that surveillance is actually a prerequisite of conditionality and this meant that it was the Second Amendment that enabled IMF to take the step from financing to adjustment and should therefore be regarded as the cause for IMF being a case of successful learning.

*Keywords:* IMF, International Organizations, Surveillance, Conditionality, Bretton Woods

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# 1. Introduction

How can we explain and understand organizational change? In this thesis I will evaluate the possible underlying factors of how, according to a study by Ernst B. Haas, the International Monetary Fund (IMF or the Fund) became a case of, what Haas calls, “successful organizational learning” (Haas 1990:138). Haas’ study stretches over roughly 40 years, from around 1945 (the Fund was founded in 1944) to the late 1980s (the book from which the study is derived was published in 1990), and his results show how the IMF evolved from what is called “the incremental-growth model” in to “the nongrowth model” (in the early 70s) and finally into the “the managed interdependence model” (around 1980). With this study Haas gives us a tool that can help us explain this, and other, organizational changes. By using Haas’ model and the case of the IMF I will try to explain factors leading to organizational change. In a way this thesis has dual purposes, the first one trying to explain the factors behind Haas’ observed organizational changes and the second being to empirically test Haas’ theory. So my study, that primarily tries to find the causes to why the IMF evolved as Haas describes, will be based on the theoretical foundation and the findings in his book “When Knowledge is Power: Three Models of Change in International Organizations” (1990). Because I base my research on Haas’ results I will therefore also present the theory and method used by him in his study.

Almost from their inauguration, there’s been a lively discussion surrounding the Bretton Woods institutions (IMF and the World Bank). We hear about them almost every day in our lives in one way or another, but what we seldom hear is something positive or something regarding how (or if) they try to adjust, adapt or learn from the massive critique being directed at them. This has been fascinating me for some while now and therefore I decided to look into the area of, a possible, evolution in the IMF. Lately heavily criticism has been directed at IMF’s structural adjustment programs and the conditionality requirements attached to its loans. In the IMF “prescriptions” (e.g. as described by the conditions for taking a loan) there has been a trend of a move from broad macroeconomic targets to what some people call “microconditionality”. Today the loans are larger, longer-term and designed to tackle new problems. IMF doesn’t only offer advice and sets conditions on policies from areas of long-standing focus as for instance exchange rates and credit expansion, but now also on new areas of concentration, including governance and enterprise reform. These changes are important to highlight due to the fact that they influence the policies and the political and economic trajectories of borrowing states (Gould 2003:551f). I then think that the mere occurrence and importance of these changes make the study of and search for explanations and factors leading to these changes very important.

But this hasn’t always been the mission of the IMF, does the expanded conditionality and broader policy areas reflect some sort of informational change in the IMF? Has the IMF learnt from its previous engagements and crises over these 40 years and changed its approach due to the knowledge that is being offered by history? In other words, has the IMF used its accumulated knowledge and if so; is this the reason for “success” i.e. is “knowledge power”?

One thing that struck me while I was reading Haas’ otherwise interesting book was the lack of explanations on why the IMF changed. Haas merely shows *how* the IMF evolved into the different models but not really *why*. He presents some very brief explanations to the change to the reader but these brief accounts merely arose my interest to why these changes have occurred. It’s within in this field of study my essay will take place. I will further look into the explanations given by Haas but also turn to other scholars as well official IMF

documents in order to work out some comprehensive explanations to the shifts in models. This essay will add to the work of Haas and can hopefully serve as a compliment to anyone who is reading and/or studying his book and catches further interest into the IMF as a case of successful organizational learning.

## 1.1 Problem

In Haas' study the problem concerns the area regarding why and how actors (in organizational life) change their explicit and implicit views about what they see as a problem requiring collaborative measures for a solution. The dependent variable is then "the change in the explicit or implicit view of actors in international organizations about the nature of the 'problem'" (Haas 1990:7). Haas finds a certain pattern of the IMF and the evolution of the dependent variable and from these findings he draws the conclusion that the IMF is a case of successful organizational learning (ibid 145ff).

My problem, which builds on the study of Haas, is formulated as follows: "What is (are) the cause(s) for IMF being a case of successful organizational learning?" The "puzzle" in this essay constitutes of the fact that IMF is very often portrayed as a very static organization and not one of evolution (see Joseph 2000, Bird 1996). This picture stands in stark contrast to the one depicted by Haas and that's why I would like to further explore this "view" of the IMF. Haas is making a quite bold statement by referring to IMF as a case of successful organizational learning and it's therefore interesting to further analyze this area. The 40 years that are included in the study include some very dynamic periods of time such as the Cold War, the oil crises, the crash of the fixed exchange rate system and other events which sets the scene for some very interesting observations and possible causes. Another "puzzle" is that IMF actually takes the step and displays a learning behavior, this is in fact very rare (Haas 1990:37).

## 1.2 Theory

As mentioned earlier, I base my thesis on the study by Haas and hence the theoretical foundation found in Haas work lays the frame for my thesis. What Haas seeks to explain is the change in the definition of the problem to be solved by a given organization (Haas 1990:3). In this case the "given organization" to be studied is the International Monetary Fund (IMF). By using this theory Haas can "explain the change in problem definition, to make clear whether and how implicit theories held by actors changed" (ibid). This redefinition of the problems occurs through one out of two complicated processes that Haas calls "adaptation" and "learning". There are some clear differences between these two processes, especially in their dependence on new knowledge that may be introduced in decision making.

In the process of adaptation the actors' behavior change as they add new or drop old activities without examining the implicit theories underlying their programs. They're not questioning the underlying values. Within the learning process, in contrast, the behavior changes as actors question the original (implicit) theories underlying the programs and examine their original values. In the adaptation process the ultimate purpose of the organization is not questioned. The emphasis is on altering the means of action not the ends. The learning process redefines the ultimate purpose, as means and ends are questioned. Here substantive rationality triumphs as opposed to technical, which triumphs within the adaptation

process. In the adaptation process new ends (purposes) are added without worry about their coherence with the existing ones. The change is incremental, there's no attempt at nesting the purposes logically as opposed to the learning process. In learning the new nested problem sets are constructed because new ends are devised on a basis of consensual knowledge, that is provided by epistemic communities, that has become available (ibid 3). An epistemic community is defined as "a community composed of professionals who share a commitment to a common causal model and a common set of political values (ibid 41).

There are two models of adaptation, called incremental growth and turbulent non-growth, and one model of learning called managed interdependence (ibid 93). The incremental growth model features "the successive augmentation of an organization's program as actors add new tasks to older ones without any change in the organization's decision-making dynamics or mode of choosing". The model of turbulent non-growth "involves major changes in organizational decision making: ends no longer cohere; internal consensus on both ends and means disintegrates". Last but not least we have the managed interdependence model "in which the reexamination of purposes is brought about by knowledge-mediated decision-making dynamics" (ibid 4). A more in-depth description of the various models will follow in chapter 4.

The key assumptions underlying the theory are as follows: "All international organizations are deliberately designed by their founders to solve problems that require collaborative action for a solution. No collaboration is conceivable except on the basis of explicit articulated interests. The interests to be realized by collaborative action are an expression of the actors' values" (ibid 2). "The knowledge available about the problem at issue influences the way decision makers define the interest at stake in the solution to the problem; political objectives and technical knowledge are combined to arrive at the conception of what constitutes one's interest... But the conceptualization cannot stop here because decision makers take available knowledge into account, including the memory of past efforts to define and solve the problem. They know that their knowledge is approximate and incomplete. Being aware of the limits of one's knowledge also influences one's choices. Being critical about one's knowledge implies a readiness to reconsider the finality of what one knows and therefore to be willing to redefine the problem" (ibid 9). A final assumption is that "change in human aspirations and human institutions over long periods is caused mostly about the way knowledge about nature and about society is married into political interests and objectives... Science influences the way politics is done... The doings of actors can then be described by observers as an exercise of defining and realizing interests informed by changing scientific knowledge about man and nature" (ibid 11).

Additional arguments brought forward by Haas and underpinning his study are as follows; some innovations in international life result from the experience of decision makers in international organizations, international organizations are coalitions of coalitions and what matters (in order for change to take place) is whether the member states are satisfied or unhappy with the outcomes resulting from the organization (due to the shape of the organization) (ibid 14,18,20). If they're not satisfied they try to affect the organization's agenda and action programs by formulating new demands (for a more thorough discussion regarding organizational design see Haas chapter 1). A typical example of a dissatisfied group of members would be the LDCs (Less Developed Countries). If I can find answers in my analysis to the question of why particular demands are linked into packages, as conditionality,

this helps me find the causes to the organizational changes (which in turn answers my question on why IMF is a successful case).

## 1.3 Method

Haas uses the explanatory power of ideal types (of organizations) in his study (ibid 7). The models he presents are to be seen as Weberian ideal types, they constitute a typology for conceptualizing organizational change, for summing up whether and how adaptation or learning occurs (ibid 10). The term used for this kind of method is “ideal type analysis”. By using the ideal type as an instrument of analysis and compare it to real life phenomenon, in the study the IMF over a period of time, we can discover the key features of the study object (Esaiasson et al 2003:154). This means that we can discover the key changes in the key features as well by comparing how the key features of the study object have changed over time. This is just exactly what Haas does.

The tools to examine how IMF changes from resembling one model to another one are provided in the form of descriptive and analytical (evaluative) variables. First you need to find the characteristics that differentiate international organizations and this is done in two steps. When comparing international organizations you need to identify the differences (Haas 1990:63). Haas compares the same organization (IMF) but at different points of time so in this sense he’s comparing several international organizations. This comparison is done by introducing a set of descriptive variables within three main dimensions (setting, power and behavior) that makes the delineation of key conditions and attributes (that vary from model to model) possible (ibid 4). The descriptive variables are applied to IMF over time, and enable the researcher to define what kind of organizational model that’s present at the specified time of study.

To make an evaluation possible of the variation disclosed by studying the descriptive variables Haas adds a second set of variables (ibid 4). In seeking to identify a specific pattern (the move from one model to another or the non-move) and to be able to identify this specific pattern and to identify if it’s an adaptive or learning pattern Haas uses evaluative variables (ibid 71). The emphasis in these evaluative concepts lies on the types of knowledge used by actors in making their choices, their political objectives, and the manner in which issues being negotiated are linked into packages (ibid 4). A more thorough account of both the descriptive and evaluative variables will follow in chapter 2.

In this thesis I’m performing a case study that will focus on the IMF. In general most case studies actually have at least two units of analysis, in this case I have three (the three different time periods when each different model is identified as described by Haas). So in a formal sense a case study doesn’t differ much from a comparative study. The difference is that the comparative study is different contexts at one point of time compared to the case study where there’s one context a several different points of time (Esaiasson et al 2003:119).

What I will do then is that I will describe each model in turn and after each model I will analyze the empirical material that concerns that specific period of time, of the model’s occurrence, and relate that to the variables in each model to get a better grasp on why these changes occurred. So for the the incremental-growth model I will look at that period of time (1944/45 to around 1970) that Haas as identified as the period for the model within the IMF and then relate the variables to the empirical material and this will give me answers to why the organization looked like it did but also why there are changes. But I will also look to other

possible explanations to get a more comprehensive picture of the causes. Haas admits that such things as environment, structure, and technology (to carry out tasks with), besides changing or constant goals, have to be considered in concern with institutional innovation. These things might constrain and/or hinder the fulfillment of the goals of the organization (Haas 1990:15). These constraints might lead to a redefinition (of the goal/problem) because of the inability to attain the goals or just the mere incompleteness of the goals. So in this sense these factors might indirectly act as innovators because they're able to force a redefinition of the goals to be obtained. As mentioned earlier; if the members of the organization are not satisfied with the outcomes resulting from the it they try to affect the organization's agenda and action programs by formulating new demands, in other words they try to redefine the problem/goal. Therefore it's necessary to take these in to consideration to get a comprehensive understanding of the organizational change.

## 1.4 Material

The material used in this thesis will consist of variety of academic articles from different sources such as International Organization and Review of International Studies. Other important material consists of articles from Finance and Development in which several former highly ranked employees at the Fund tell in interviews and other documents about why and how certain measures were taken and about their personal impressions from their days at the Fund. Besides this I've also turned to official IMF documents such as the "IMF Staff Papers" to get the Fund's view of the changes. Textbooks that have been to great help are those that were used earlier in the course International Political Economy at Lund University. There are both critics and advocates of the IMF among the authors to the abovementioned material which I think will add to this thesis being more objective. I'm not trying to judge if the IMF as such is good or bad, I just seek to explain the causes behind the organizational change. So by using a wide variety of sources I try to work cumulative (Lundquist 1993:108). The guideline for the selection of material has been the desire to bring in as many aspects as possible in to the discussion.

I hope and think that the wide variety of thoughts, perceptions and view of IMF that the different scholars have will contribute to a comprehensive picture of the IMF and the causes for change.



## 2. To identify and differentiate: The variables

The use of the variables works through two different phases, the first phase is “a descriptive code” and the second one is “an analytic code”. The descriptive code serves to help us identify differences between international organizations (IOs) while the analytic code enables us to discover and identify patterns of learning or adaptation in the experiences of IOs (Haas 1990:63,71). In the following sections I will disclose the list of variables and the coding of variation (signified by””) within these variables that Haas uses and that also forms the foundation of my analysis.

### 2.1 The descriptive code

The variables in the descriptive code are intended to cover more or less every single aspect of the work of IOs (ibid 88). I will present the variables and the range of variation (the coding) in the same order as they appear in Haas’ presentation.

*Ideology* – Five major ideologies have competed for dominance in the global IOs since 1945; that contest has shaped most of the decisions and outcomes in the IOs that we seek to reduce to a pattern. These ideologies are as follows: Classic liberalism, Managed liberalism, Structural antidependency, Pragmatic dependency and Ecoholism. These ideologies and their content describe, or in other words, “abstract the core items” from what member states want and expect from collaborating in a multilateral forum like an IO (ibid 65). If we have a case when there is a hegemonic ideology that is constantly being challenged from one or more rivals we associate it with the adaptation process. But if there’s the victory of any two ideologies that manage to work out a compromise it’s consistent with the learning process (ibid 89). For a further explanation see Appendix 1.

*Representation* – The representation of the member states, within the IO, can be determined in three ways: one is the principle of “equality of states” which means one state equals one vote. Another one is that representation is “qualified by attribute of states”, this attribute can be things considered (by the IO) essential for the proper implementation of the organization’s task such as financial or military power. This form of representation can be expressed as e.g. permanent membership in the key decision making bodies. The third form is that of “participation of NGOs” which weakens the state control, these NGOs may represent the state either formally or informally. Adaptation goes with “equality” while learning is associated with “qualified” and “participation” (ibid 66f ,89).

*Autonomy of secretariat* – Is the secretariat neutral vis-à-vis member states or is it penetrated and controlled by a specific coalition of states? Is recruitment based on strict “civil service criteria” or is it staffed by officials beholdng to one coalition of member states trying to penetrate the organization? Penetration can be “partial” o “full” and the extent of the penetration can predict the range of the organizational output. Total penetration is expected under ada-

ptation while under learning there's autonomy of the secretariat but there might also be partial penetration (ibid 67, 89f).

*Status of experts* – The concern here is the degree of independence experts as advisers and consultants enjoy. We have “uninstructed, independent” experts acting on their personal capacity, those who belong to an “epistemic community” but are formally uninstructed and lastly those who are appointed by a member government and “instructed” by it (ibid 67). Under adaptation every form is accepted but learning requires the predominance of epistemic communities as the most relevant experts (ibid 90).

*Revenue base* – The organization can raise its revenue from its members by “annual assessment”, “voluntary contribution”, “taxation” or from fixed “capital subscription” that is determined by bond issues, by interest from loans etc. All of these forms are consistent with adaptation while learning relies on “capital subscription” and “voluntary contributions”. The financial power of IOs varies from total dependence to the ability to tax member states (ibid 69, 90).

*Administration* – The administrative power is almost entirely “indirect”, but at one extreme we have “direct” international administration whereas no permission is needed to operate on member soil. At the other end we have the indirect in which power is delegated to the member state and at the intermediate level between these two we have “shared” administration when, after an initial “green light” by the member government, the personnel is administered by the IO (e.g. relief projects). None of the adaptation and learning patterns can be uniquely associated with one form but under learning it's expected that “shared” administration is the preferred choice (ibid 69, 90).

*Monitoring of compliance* – The power to monitor and to assure compliance take the form of graduated steps called: “consultation”, “ad hoc reporting”, “regular reporting”, “examination of reports”, “investigation of complaints” and “sanctions”. These steps constitute a scale of organizational intrusiveness. For a further description see Appendix 2. All of the above-mentioned types are consistent with adaptation, organizations undergoing learning will stress “consultation”, “regular reporting” and “sanctions” (ibid 69,90).

*Voting* – Voting may follow the procedure of either constitutional rule which consists of “simple” or “qualified” majority or it follows “consensual” rule. This means that voting is avoided until an acceptable compromise is reached, preferably by “unanimity”. Organizations under adaptation relate to voting by simple or qualified majority while under learning there's avoidance of voting and instead “consensus” is practiced (ibid 70,90).

*Budgeting* – Can be done through “disjointed incrementalism”, whereby programs continue on an ad hoc basis without a formal examination of their success. “Logrolling”, where the programs are approved on the basis of ad hoc coalitions in which each item is the victim or the beneficiary of separate agreements among members. “Program budgeting” and “planning forecasting” have started as a reaction from the dissatisfaction with the former practices. Learning is associated with “program budgeting”, adaptation is associated with “disjointed incrementalism” and “logrolling” as ways to create a budget.

*Personnel recruitment* – Is it done by “merit only” or is recruitment solely done on the basis of “nationality” quotas? Another option is “exile staffing” where e.g. the U.N. system is used as an honorable way to exile an inconvenient politician. Learning is associated with “merit only” staffing while an organization under adaptation tends to lean towards “nationality” quotas (ibid 70, 90f).

*Role of NGOs* – Whether or not they’re epistemic communities, NGOs play different roles. They can stick to pure “lobbying”, act as “close advisers to staff” where they provide expert advice and service or they can act as “complainants, [and can also be the one who] monitors program execution”. Adaptation tolerates all the different roles NGOs can play, the use for NGOs in consultation, analysis is increased during the learning phase (ibid 71,91,94).

*Leadership of executive head* – The styles range from “self-effacing, reactive” leadership, to the leader being “subject to hegemonic state/coalition” and acts merely as an agent of the hegemony and finally his/hers leadership can be “profiting from crisis” in which the executive head obtains more power by organizing a slightly different coalition for each issue. In order for this to take place there must be an absence of a dominant coalition. During adaptation the executive is “subject to hegemonic state” as opposed to an organization that learns in which the leadership style is crisis management and is “profiting from crisis” (ibid 71,91).

## 2.2 The analytic code

The emphasis here lies in the types of knowledge used by actors in making their choices, their political objectives, and the manner in which issues being negotiated are linked into packages (ibid 4).

*Knowledge* – We have to study the decisions by the IO with regard to the knowledge brought to bear. Is this knowledge consensual or not? Consensual knowledge is defined as “the sum both of technical information and of theories about it that command sufficient agreement among interested actors at a given time to serve as a guide to public policy” (ibid 74). Decisions are based on knowledge that is or “not” “becoming more consensual”. In organizations under adaptation the knowledge is “not becoming more consensual” while it’s the opposite under learning (ibid 91).

*Political goals* – These goals are determined by the ideology of the decision maker (one of the five mentioned earlier). Goals can be either “specific” or “interconnected”, “static” or “expanding”. A specific goal seeks to attain a single outcome (e.g. clean air or fuel prices), interconnected goals envisage causal connections among these separate outcomes i.e. they see the problem in a more complex way. The static goals remain the same over a long time and the expanding goals mean that new goals are added to satisfy demands connected with old ones. During learning there’s an ability to justify “expanding” and “interconnected” goals or to articulate “static” or “specific” ones. Under adaptation the organization has problems deciding whether to remain “static” and “specific” when under pressure to move toward “expanding” and “interconnected” (ibid 74ff, 91).

*Decision-making style* – When combining *political goals* and *knowledge* we obtain the four different sorts decision-making style that can be associated with IOs. “Eclectic” which is combination between specific-static and not becoming more consensual. “Skeptical” which combines interconnected-expanding and not becoming more consensual. “Analytic”, a combination of interconnected-expanding and becoming more consensual. Finally there’s “Pragmatic” which combines specific-static and becoming more consensual. Adaptation is associated with compromises between “skeptical”, “pragmatic”, and “eclectic” styles. Learning is associated with “pragmatic” or “analytic style” (ibid 76, 91).

*Issue linkage* – The issue is a single goal on the agenda. The issue linkage refers to bargaining (and its process) that involves more than one issue. Our first focus is persuasion; how experts persuade each other, how politicians bargain, and how experts interact with politicians. The first way is through “tactical” linkage, this is done by linking issues that aren’t substantively or inherently connected. The second is “substantive” linkage in which consensual knowledge is applied to an agreed overarching social goal or on the basis of causal understandings. The third way is through “fragmented issue linkage”, where most of the political aspirations are issue specific but there are strong strands of causal understandings among the issues. The bargaining demands that the negotiators maintain cohesive coalitions in face of this mismatch between knowledge and interest (ibid 77f). Organizations under adaptation attempts the third way but depends on “tactical” linkage while learning organizations use “fragmented issue linkage” the same time as they reach for “substantive” linkage (ibid 91f).

*Bargaining* – IOs are coalitions of coalitions (ibid 18) and there are three different types of bargaining situations/encounters (that will affect an IO): 1) intragovernmental, 2) intracoalitional and 3) intercoalitional. The coalitions may either profess “similar” or “dissimilar” modes of linking issues and of merging knowledge with political goals. Situations in which coalitions have a similar mode are more likely to produce lasting collaborative agreements than those with dissimilar modes (ibid 82f). Dissimilarity prevails across the board in negotiations involving adapting organizations. For negotiations regarding learning organizations the intragovernmental ones feature dissimilarity, the intracoalitional feature similarity and the intercoalitional is based on almost similar modes (ibid 92).

*Problem definition* – When the abovementioned bargaining results in an agreement, which is some sort of action program, there has to be a decision to define a commonly experienced problem that is to be solved through this collaboration. There are three sets of problem definitions: The result of the analytic-substantive mode is a “nondecomposable” set of tightly interrelated issues and concerns. The set is hierarchically arranged as it’s derived from a single overarching principle. In the pragmatic-fragmented mode there’s a set of “nearly decomposable” because the bargainers have to do some compromising regarding the basic principles in assembling the set. A “fully decomposable” set is a result of the eclectic-pragmatic style. Agreements reached here are subject to relatively easy dismemberment as bits and pieces of the problem can be tackled. The outcome of the skeptic-fragmented mode depends on the composition of the opposing side, it can be either fully decomposable or nearly decomposable. Adapting organizations tend to go with “fully decomposable” sets while during learning an organization will stick to “nondecomposable” or “nearly decomposable” sets (ibid 85,92).

*Institutionalization* – This is defined as “the development of new organs, subunits, and administrative practices that are designed to improve the performance of the organization in the wake of some major disappointment with earlier outputs”. The variation here is bivariate: institutionalization either does or doesn’t develop. During adaptation it’s difficult to achieve a coherent and consistent institutionalization as opposed to learning where this is the case (ibid 86,92).

*Authority and legitimacy* – Here the variation is the same as with institutionalization; the features either do or don’t develop. Legitimacy exists when the members value the organization, implement its collective decisions and view them as serving the members’ values. Authority consists of the organization’s ability to have its decisions implemented irrespective of the goodwill of the members concerned. Both authority and legitimacy can either increase or fail to do so. Adaptation is consistent with an increase in both dimensions, or the status quo in either one or both. Learning is associated with an increase in authority but not necessarily with a simultaneous increase in legitimacy.

### 3. The IMF

*“International Monetary Fund (IMF) – A public international organization created by the Bretton Woods Agreement in 1944 as the main instrument of international monetary management. The IMF helps countries with payments deficits by advancing credits to them. Originally, its approval was made necessary for any change in exchange rates. It advises countries on policies affecting the monetary system. The IMF is provided with a fund composed of member countries’ contributions in gold and their own currencies. The system of weighted voting allows the United States to exert a preponderant influence in this body”*

Definition of IMF by Spero and Hart (2003:410).

The Bretton Woods agreement created two international institutions: IMF and IBRD (also called the World Bank). These organizations were created to perform certain monetary functions for the international system (Spero & Hart 2003:14,193). At its creation, IMF was conceived as a major element in a group of organizations that were designed to help prevent a post-war recurrence of the global economic depression and its associated evils that had plagued the world between the two great wars. The IMF would achieve this by giving numerous countries a stake in the stability and sound basic management of the international monetary system including international payments, finance and trade (Kapur & Naím 2005:89). IMF was designed to provide a cushion to help states adjust to balance-of-payments and economic development problems. The Bretton Woods provided for a “fixed but flexible” system of exchange rates. By giving the right to draw foreign exchange on fairly liberal terms from the IMF the adjustment to imbalances (that might emerge) was to be eased (Underhill, 2000:107f). The adjustment was to be based on a fixed exchange rate system supplemented by financing, exchange controls, exchange rate changes, and adaptation of national policies. The fixed exchange rate meant that all countries agreed to establish the value (parity) of their currencies in terms of gold (Spero & Hart 2003:13f). It’s said that the need to ensure availability of supplementary financing, in case a country needed to intervene in the exchange market which presupposed a large volume of reserves, was the main reason IMF was created (Cohen 1982:461). The role of the IMF was to be the keeper of rules and the main instrument of public international management (Spero & Hart 2003:13,15).

The ideas displayed in the agreement largely bears the imprint of John Maynard Keynes, father of Keynesianism and one of the most influential economic thinkers of his time. He insisted that the main focus should be on limiting the power of disequilibrating capital flows through comprehensive exchange rate and cooperative controls. He also viewed the state as having a responsibility to foster consumption and investment during depression. With the Bretton Woods agreement Keynes hoped to create a financial system that would enable states to pursue these active economic policies (Best 2004:387f).

## 4. Organizational change in the IMF

In this chapter I will perform my analysis. In the following subchapters I will first present the model of organizational change that Haas describes for the specific time period (I'll conduct the analysis in a chronological order) then I will present empirical material in order to 1) explain why we can identify this kind of model (the causes/factors) and 2) to test Haas theory and see if the model he claims to apply really does so. In the end I hope that this will lead to the answer of my problem: "What are the causes for IMF being a case of successful organizational learning?". For an overview of how Haas has applied the models on to the IMF see Appendix 3.

Before the first model is presented I will show the sequence of how one's policy is changed. When the actors face the disappointing outcomes of earlier actions they most often question the adequacy of their policies, their means, and not the theory of causation that led them to making the policy choices. If the outcomes don't improve after a new set of means is selected the actors start to question the ends they pursue. Only when the new ends result in unsatisfactory outcomes do they question the theories about the problem to be solved. For learning to take place it's necessary with reevaluation, meaning that beliefs of cause and effect are examined and questioned. Reevaluation is only possible with the existence of bodies of knowledge not previously available. For adaptation there's no need for new consensual knowledge (Haas 1990:36,72). Learning occurs from one of the feedback processes from dissatisfaction with outcome to the formulation of new demands and from output to programming (ibid 18).

### 4.1 The incremental-growth model and the period of 1945-69

The general characteristics of the incremental-growth model are as follows. There's no single epistemic community dominating the knowledge flow and the knowledge that's available to policymakers doesn't become more consensual, even though it may be growing in scope. The goals are static and narrowly focused, entertained by politicians in the dominant coalition. Politicians outside that coalition are advancing dynamic and expanding goals. Prevalent decision-making styles pit eclectics and/or skeptics against each other. Issues will mostly be linked tactically even though there's some pressure for engaging in fragmented linkage. The relative irrelevance of the new bodies of knowledge and the modesty of the goals result in "similar" bargains at intragovernmental and intracoalitional levels and only slightly dissimilar at the intercoalitional level. The resulting problem definition is likely to be a fully decomposable set; there's no reason to expect much of an intellectual coherence among the constituents in the IO's program as each item can flourish or fail on its merits without being aided or hindered by other items (ibid 93).

The incremental model flourishes when any one of the ideologies is disproportionately represented among the members. During this period (as well as in the two following) has the Fund's ideology been characterized by managed liberalism (ibid 99,146). The co-fathers of the Bretton Woods agreement, USA and Britain, created this new monetary order with the belief that the pre-war laissez-faire system had to be managed. Keynes (representing Britain) considered that volatile short-term capital flows had contributed substantially to the interwar economic disaster, and the US Treasury strongly supported a multilateral organization that could manage these capital flows (Underhill 2000:107). They believed that the previous

system, that relied heavily primarily on market forces, had proved inadequate and that the world needed a publicly managed international monetary order. This in order to prevent another economic and political collapse and a resulting military conflict (Spero & Hart 2003:14). The incremental model requires representation to be qualified by state attribute (Haas 1990:100). The system of quotas and weighted voting allowed the US, as the only major creditor country, to exert a great influence over the fund (Spero & Hart 2003:15). This form of representation, which is constant over the whole time period of the study, is still evident today with the US, still the Fund's greatest shareholder, holding a voting share of about 17 % as compared to about 40 % for all the developing countries altogether (which comprise four-fifths of the members) (Naím & Kapur 2005:92). Representation in the IMF is solely for members so there's no role for NGOs.

The autonomy of the secretariat during the incremental model is described by Haas as staffing on civil service criteria with partial penetration (Haas 1990:146). The Executive Board's directors are appointed or elected by member countries or by groups of members (IMF 1). The board in turn selects the managing director (IMF 2). This makes the secretariat vulnerable for penetration, as the most powerful members can exert serious influence due to their voting share, and evidence shows that throughout the history there's been an overrepresentation of Europeans in the board of Executive Directors (today they still hold a third of the seats) (Naím & Kapur 2005:93). In fact there wasn't a single non-European managing director of the Fund during the whole time span for this study (Garritsen de Vries 1985, James 1995). In this specific period of time (1945-69) the influence of those Executive Directors and staff who had participated in the Bretton Woods conference was preponderant. In particular the Americans (which represented the US stance (Bernstein 1984:5)), as Edward Bernstein, are said to have had a profound influence on the Fund. It's important to point out that those appointed in the Executive board at all times included men who had already achieved prominence in international monetary matters (Gold 1984:23f). During the whole time range of this study (and still today) the autonomy of the secretariat and its recruitment is characterized by civil service criteria with a partial penetration (Haas 1990:146).

The status of the experts persists over the whole period of the study; they are independent but there's a large role for epistemic communities (ibid). The experts that were attracted to the Fund were more or less of "western" origin (Gold 1984:23) and adhering to Keynesian political economic ideas and norms. In that sense the experts at the IMF constituted an epistemic community built on the Keynesian believes. During the 60s the Fund and its staff would change their ideas and define economic interests through the lens of a neo-classical synthesis (Best 2004). The memoranda that the experts at the staff prepared for the Executive board was through collaboration and they had to reach a joint view in their work (Gold 1984:24f). With an epistemic community at work this must have been easier to obtain than if the case was the opposite, Joseph (2000:50) argues that the staff of IMF routinely demonstrate their allegiance to (i.e. they share) the same ideology. However it's argued by Best (2004:394) that the growing influence of neo-classical synthesis in the US later spread and influenced the IMF staff which can be interpreted as the experts being informally instructed by the government. This would be more consistent with the incremental model as opposed to the independent characteristic (Haas 1990:100).

For the entire period of study the revenue base has been through capital subscriptions, in the first period (1945-69) it was solely from wealthy Western countries and after that Japan and the wealthiest oil exporters have joined (ibid 146). In essence the Fund was created as a



pool of national currencies and gold that each member subscribed to. Quotas, that intend to roughly reflect each country's relative importance in the world economy, are assigned to members and then they are obliged to pay into the Fund a subscription of equal amount (Cohen 1982:462). This type of revenue base is consistent, in varying degrees, with all models (Haas 1990:94).

The administrative power during these years was of the indirect type, and it's also consistent with incremental model (ibid 94,146). Borrowing was/is subject to conditions, the "conditionality" provision. When an agreement of a stabilization program is reached it must first contain a letter of intent from the member government to the Fund, spelling out its program to correct the problem, and the use of performance criteria spelling out the policy objectives of the program. The stand-by agreement was used as an instrument in applying policy conditionality. The responsibility of implementing the program was laid upon the members but their access to the resources was dependent on compliance with the performance criteria (James 1995:765, Cohen 1982:463f). This form of administrative power would remain during the whole period of adaptation (including the turbulent non-growth model). The types of monitoring compliance would also remain the same during the years of adaptation processes. The forms used were consultation, reporting, and examination of reports (Haas 1990:146). In 1952 the Fund started with annual consultations that enabled it to make regular reviews of the full range of each member country's balance of payment position, policies and prospects (Garritsen de Vries 1985:8). As described in the administrative power variable, the members first had to consult with the Fund about the program, and then there was reporting under the stand-by agreement in order to receive further loans and the measures taken by the borrower were subject to performance tests (i.e. they were examined) (James 1995:765). All these forms are consistent with the incremental growth model (Haas 1990:100).

From its start and until the period of learning the voting can be said to be none (ibid 146). The decisions are (usually) taken without a formal vote (Cohen 1982:464). Every attempt to reach a consensus among the Executive Directors was made; in one extreme case the decision took nine years. Voting was avoided, and if a decision had to be taken a situation was reached where those who wouldn't agree were content to record their objections (Gold 1984:25) The type of budgeting used by the IMF throughout the period of study has been program planning (Haas 1990:146). The dedication to program planning is shown by the use of "performance criteria", "letter of intent", "stand-by agreements" and "conditionality" in general. This means that the programs are well defined (and planned) before they are implemented. This is type of budgeting is not consistent with the incremental model and because there's no voting that takes place makes it hard to check the voting variable against the incremental model (ibid 101).

The personnel recruitment is over the entire period of study based solely on merit as stated in Article XII, 4d in the Articles of Agreement (ibid, IMF 4). IMF doesn't need to meet any national recruitment quotas, what's considered when selecting a candidate is his/hers technical skills and personal qualities (IMF 3). Recruitment on merit basis is consistent with the incremental model (Haas 1990:101). As mentioned earlier there's no role for NGOs in the IMF according to Haas, he argues that this is true for during the whole time of the study (ibid 146), even though I find it hard to believe that they don't even have a role of lobbying when PFIs (Private Financial Institutions) as supplementary financiers have great influence (see Gould 2003). The leadership of the executive head during 1945-69 is characterized as subject to the dominant coalition which is consistent with the incremental model (Haas 1990:94,146).

An example of this is the successful US advocacy of conditionality (some members wanted the financing to be automatic) that was implemented in 1952 (Gold 1984:24f, Cohen 1982:466f). The strength of the US economy was the reason for the Europeans (the other dominant part) to accept US management (Spero & Hart 2003:16).

As opposed to what is consistent with the incremental model the knowledge became more consensual during these years (Haas 1990:102,146, Pauly 2000:123). As mentioned earlier, the staff of IMF routinely, and also the Board, demonstrates their allegiance to the same ideology (Joseph 2000:50) and the memoranda (which is basis for the Board's decision) was composed through collaboration towards a joint view (Gold 1984:24). The political goals were specific, e.g. maintain the system of fixed exchange rates, however they weren't static rather dynamic (Haas 1990:146). The dynamics can be viewed in the start of conditionality provisions, the stand-by agreements and stabilization programs (Cohen 1982:464). This can be said to be more or less consistent with the incremental model. The decision making style at this time is identified by Haas as analytic, the style for the incremental model is supposed to be either eclectic or skeptic (Haas 1990:95,146). How Haas reached this conclusion isn't obvious, to have an analytic style prescribes, according to Haas, that you have a combination of "becoming more consensual" and "interconnected-expanding" which we don't have in this case, also according to Haas.

The issue linkage is "substantive" according to Haas (ibid). Earlier discussions in this chapter regarding consensual knowledge, the adherence to managed liberalism, the common view at this time in history of the need to control capital flows through Keynesian norms and rules support this claim (Smith 1984:212, Best 2004). In his study of IMF Haas only mentions the intercoalitional type of the bargaining variable and he identifies it, in this period, as similar. This is inconsistent with incremental model that is towards "slightly dissimilar" (Haas 1990:103,146). During the years the number of members have grown tremendous, from 29 at the inception to 184 in 2005 (Naím & Kapur 2005:89, Joseph 2000:51). The lower amount of members and the general adherence, as described earlier, in these days to the same ideology, political goals and decision making styles makes the claim by Haas, that the bargaining coalitions "lived in the same cell" i.e. profess similar modes of linking issues and of merging knowledge with political goals, valid (Haas 1990:82).

As a result of the analytic decision making style and substantive issue-linkage the problem definition at this time is described by Haas as nondecomposable (ibid 146). The incremental model is otherwise likely to have a decomposable problem definition (but also, as mentioned, different issue-linkage and decision making style than this case). The overarching principle here is the establishment and maintenance of a liberal economic system, ensured by international cooperation, to provide the foundation for a lasting peace (Spero & Hart 2003:14). The set of tightly interrelated issues and concerns consisted of items such as the system of fixed exchange rates, the abolition of exchange restrictions, limiting balance of payments disequilibria among others (Garritsen de Vries 1985:7, Joseph 2000:47).

During the entire life span of the IMF there has been institutionalization. Institutionalization is also consistent with the incremental model (Haas 1990:146). After major disappointments during its first years the Fund made some far-reaching changes. 1952 it was decided that the Fund was to hold annual consultations with each member and "conditionality" was introduced. When concern arose about the adequacy of the official sources international liquidity and the disruptive short-term capital movements the fund created GAB.

General Arrangements to Borrow (GAB) was created in 1962 and permitted the Fund to borrow up to \$6 billion from the ten largest members, if any of the ten drew (Garritsen de Vries 1985:8). Another example is the establishment of the Compensatory Financing Facility in 1963 to cover shortfalls in export earnings (Dale 1984:4, Lastra 2000:519).

The authority and legitimacy of the IMF, in consistency with the incremental model, were on the increase during this period (Haas 1990:104,146). Initially the Fund had problems asserting its authority but by meeting its members' needs, achieved through the changes during the 50s and 60s, deficit countries respected IMF decisions and conditionality (Garritsen de Vries 1985:7f, Cohen 1982:467,476). The increase of the Fund's quotas during the 50s and 60s, and the creation of facilities such as GAB can be interpreted as signs of increased legitimacy (Spero & Hart 2003:18, Garritsen de Vries 1985:8).

During the second half of the 1960s the Bretton Woods system of "fixed but flexible rates" started to crack. The Bretton Woods system existed at the mercy of US willingness and capacity to manage the dollar in keeping with the needs of a stable international system (Underhill 2000:110). The United States started to experience payments difficulties accompanied by large conversions of dollars into gold (Bernstein 1984:6). The US commitment to the Cold War and the Vietnam war led to large military and other government expenditures overseas, which swelled the dollar holdings of foreigners whom in turn cashed them in for gold leading to the depletion of the US Treasury's gold stocks. As the European and Japanese economies grew stronger the US trade surplus began to dwindle and the foreign holdings of dollars overshadowed the US gold stocks. The US ability to convert unlimited amounts of dollars into gold on demand at a fixed price, as US had pledged, became more unstable as the amount of dollars in the system grew. Speculation began sporadically in the mid 60's and reached a fever pitch in 1968 (Underhill 2000:109f). The overvaluation of the dollar created problems in maintaining the confidence in the system and by the end of the 60's the US experienced chronic trade deficits that led to further deterioration the US balance-of-payments (Spero & Hart 2003:23f). In an attempt to remedy the reserve system the Fund created the special drawing rights (SDRs), this would help the growth of reserves less dependent on US payments deficits (Bernstein 1984:6). SDRs are international reserve assets that are allocated through various issues (Lastra 2000:513). The creation of SDRs was done to reduce the inflationary power, by creating an artificial currency that would share the role of the dollar, and increase international liquidity. The creation of SDRs is seen as a major change in the Fund as it was an attempt to shrink the relative power of the dominant nation (Joseph 2000:54). This wasn't sufficient though, by 1970 the speculative short-term capital flows overwhelmed the financial capacity of governments and central banks to control these flows and maintain the pegged system (Underhill 2000:110, Spero & Hart 2003:24).

Best (2004) argues that the hollowing out of the Keynesian norms (the move to the neoclassical synthesis) within the Bretton Woods system was the reason for the impact of the speculation and the governments' difficulties to control the speculative flows (i.e. it was a main cause of the system failure). In the mid 60's the attitude towards capital controls had begun to shift, from the earlier embracement of capital controls as long-term solutions to more pervasive problems, to the view of controls as temporary responses to limited difficulties. Speculation was now seen as natural expression of a healthy market, the trick was to keep it within certain limits in order for it to not interfere with other state priorities. Governments relied on domestic controls to offset the volatile capital flows, however the sheer volume and volatility of the capital overwhelmed them and their measures failed (ibid 397,400).

## 4.2 The turbulent nongrowth model and the period of 1971-79

Within the turbulent nongrowth model knowledge among coalitions isn't becoming more consensual, however within some coalitions knowledge does command more and more agreement. Some of the politicians defend static and specific goals while others advocate dynamic and interconnected ones, these two sets confront each other for control of the dominant coalition. The decision making style pits skeptics and/or pragmatics against each other, the issue-linkage is tactical terms which results in a bargaining pattern dominated by dissimilar styles. This results in a program so decomposable as not to merit the label set at all. The lack of coherence among the program items may actually hinder the successful implementation of program items (Haas 1990:93).

Turbulence and turbulent fields in some ways arise because of the success of the incremental model. It's a result of a more complex task environment (e.g. increasing capital flows) created by the multiplication of relevant actors (e.g. the rise of the European and Japanese economies and number of LDCs due to decolonization (Joseph 2000:51)), a more confused task domain (e.g. as a result of the abandonment of the fixed rate system) because of unordered preferences informed by changes in scientific and technological knowledge. Examples of this are the creation of the Mundell-Fleming model, which inspired states to sacrifice exchange rate stability, and the growth of telecommunications (Pauly 2000:121ff, Spero & Hart 2003:28, Haas 1990: 110f).

On August 15<sup>th</sup>, 1971 the US declared that the dollar would no longer be convertible into gold. Although several attempts were made to rescue the Bretton Woods system, by introducing more flexibility to the fixed rates, by March 1973 all of the major world currencies were floating. This was the end of the Bretton Woods system (Spero & Hart 2003:24f). Now the key responsibility of the Fund, maintaining the fixed exchange rates, was obviated and at this time the Fund's future character was uncertain (Joseph 2000:54, Garritsen de Vries 1985:9). The abandonment of the Bretton Woods system also meant that the IMF was no longer the main global forum for multilateral discussion and analysis of monetary and macroeconomic trends. Epistemic groups were no longer able to broker a consensus (Haas 1990:147). Some argued, as Milton Friedman, that the Fund no longer had a reason to exist and that the collapse of the Bretton Woods system was a sign of IMF failure (Smith 1984:213, Garritsen de Vries 1985:9). In 1973 a handful of oil exporters decided to raise the prices of petroleum, the price of oil quadrupled during 1974. This created the "petrodollar recycling problem", which meant that huge sums of currency were transferred from oil consuming countries to oil producing ones. In a perfect world the oil producers surplus earnings would've been channeled back to the consumers through imports but the oil producers could not "absorb" enough imports for the loss to the consuming countries. This meant that many of the oil consuming countries found themselves in serious payments difficulties. They had to borrow to pay for their deficits (Spero & Hart 2003:25f). The LDCs, reluctant to scale back development efforts, borrowed heavily, assuming that rising prices for their exports would later on pay their debts (Joseph 2000:44). In order to meet the needs of many of its members the Fund transformed; lending now became a primary activity, borrowing no longer depended on the members' subscriptions and the Fund became an important financial intermediary (Garritsen de Vries 1985:9). Even though the Fund the fund tried to adapt by erecting special facilities such as the "oil facility" in 1974, the Extended Fund Facility in 74 and the Trust Fund in 1976, the members' aggre-

gate need for supplementary financing far exceeded what IMF could provide (Cohen 1982:470f).

The deficit countries had to turn to the private markets, the liquidity of the Western financial markets was greatly enhanced due to the fact that the oil producers had invested a lot in their operations. At first the international banks borrowed the money directly to deficit countries but there was an evident risk in making loans to any country that wouldn't ensure its future capacity to service such debt, in order to be able to exert leverage over the borrowers the investors now turned to the Fund (ibid 471ff). The Fund's role was now (and, some argue, still is) leaning towards being a facilitator of financing, financing from the markets was made contingent upon satisfactory stabilization programs between deficit country and the IMF. Funding from supplementary financiers supplements the Fund's loans, and the Fund increasingly started to rely on supplementary financing. This meant that the supplementary financiers could gain some leverage over the conditionality provisions and also that conditionality began to play a more important role for the IMF as it was a way to attract supplementary financiers, which the Fund now relied on (ibid 474, Gould 2003:557,584). This involvement serves as evidence, as argued by Haas, that the fund adapted to the changing circumstances (i.e. the turbulence) (Cohen 1982: 475, Haas 1990:147). During this time period the Fund lost its role as a forum for global consultation, instead groupings such as the Group of Seven (G-7) took over this role (Haas 1990:147, Spero & Hart 2003:32).

As mentioned in chapter 4.1 the ideology of this time was managed liberalism; the system of interdependence that characterized this period as governments wrestled with the balance between international cooperation on one hand and national economic and political interests on the other (Spero & Hart 2003:28). The form of representation, as mentioned, is qualified by attribute of state throughout the whole period. The autonomy of the secretariat (see 4.1) during this period is characterized by civil service criteria with a partial penetration (Haas 1990:146). None of these characteristics are consistent with turbulent non-growth model (ibid 115f). The status of the experts persists over this period of the study; they are independent but there's a large role for epistemic communities. However it's worth noting that views of the epistemic groups differed (see p.17). Evidence of the independence is the IMF's view that their experts would prove superior to the market in managing exchange rate fluctuations (Smith 1984:213) at the same time as many states moved towards a more 'marketized' financial order (Underhill 2000:111, Pauly 2000:122f). The creation of the World Economic Outlook (WEO) in 1973, consisting of projections of macroeconomic indicator, was used as a channel for interplay between IMF technocrats and the views of member countries (James 1995:776). The "independence" fits in to the description of the turbulent model (Haas 1990:116). For a further elaboration of these variables see chapter 4.1.

Haas argues that the revenue base has been from capital subscriptions during the whole time, during these years Japan and oil producers also started to contribute (Spero & Hart 2003:26,200). But this is only partly true as my discussion above, regarding supplementary financiers, disclose what an important role PFIs played in Fund financing (see Gould 2003, Bird 1996:490). However are all types of revenue sources consistent with the turbulent model (Haas 1990:94). The administrative power was still indirect, for a member to gain access to the oil-facility for example it needed only to meet two conditions to receive loans: to consult with the IMF on balance of payments needs and to avoid enacting restrictions on international transactions (Lastra 2000:519). During the turbulent years of the 70's the Fund kept monitoring with compliance to consultation (the principal framework for the Fund to make a

review of the member's balance-of-payments etc.), reporting and examination of the reports (through the standby-agreements and the WEO) (Garritsen de Vries 1985:8). This is consistent with the turbulent model, however, as we will see, the model describes a decline in monitoring while the empirical case shows the opposite (Haas 1990:116). The voting at this time was none, as the efforts to reach consensus regarding decisions led to that (almost) no formal voting was made. In the turbulent model there's also a trend towards no voting as all efforts are being made reach a consensus (ibid 117). The conditionality features and the member's required consultation before obtaining a loan, and the rules of repayment in the loan arrangements are consistent with program planning (p.14). As mentioned on p.14 the recruitment, as set out in the articles of agreement is based on solely on merit. As stated earlier there's no role for NGOs during the entire study, however we cannot ignore NGO impact on national governments (Hague & Harrop 2001:50). This would imply that NGOs indirectly play a role in the IMF through national governments, this is a possibility that Haas seems to have forgotten about when examining the IMF. Program planning, recruitment on merit and the non-existent role of NGOs are not consistent with the turbulent model (Haas 1990:94,117).

The leadership during these years of turbulence is one of crisis management (Spero & Hart 2003:28). For example: the Managing Director of the time, Witteveen, was frustrated by the major countries policies, hence he elaborated a new approach that, through the interventions of Executive Directors from countries that supported his stance and other channels, would eventually be the leading one (James 1995:779). This leadership style is not consistent with the model (Haas 1990:94). During these years the knowledge became less consensual, some epistemic groups saw no role at all for the IMF. Many of the members, as new ideas such as the Mundell-Fleming model informed their policies, sought other policies than the regulating that was advocated by IMF (Spero & Hart 2003:28, Pauly 2000:121f, Haas,P 1992:26). This was a sign of that the conventional wisdom of the IMF was being questioned (Smith 1984:213). During these years (1971-79) there were internal policy debates going on within the IMF (James 1995:779). The political goals during these years were confused, as the Fund had lost its main role, and the Fund's character was uncertain (Garritsen de Vries 1985:8, Haas 1990:146f). Both the less consensual knowledge and the confused political goals are consistent with turbulent model (Haas1990:74).

According to Haas the decision making style is eclectic, however his argumentation is not convincing as he claims that the decision making is either pragmatic or skeptic during turbulence (ibid 95) and then later states that the setting of the 70's included analytic, eclectic, pragmatic and skeptic politicians and experts (ibid 119). According to his variable formulation would the decision-making be either eclectic or skeptic (ibid 76). The issue-linkage is fragmented, it was agreed that international cooperation was necessary to maintain stability in the world monetary system but there was disagreement on the knowledge to attain it (e.g. "marketization" vs. control) (Spero & Hart 2003:28,185,199; James 1995:777ff, Underhill 2000:113). This issue-linkage is not consistent with the turbulent model in which tactical linkage occurs (Haas 1990:94). The intercoalitional bargaining at this time was dissimilar, which is consistent with the turbulent model, as the LDCs in the Group of 77 (G-77) and Western countries' views of the problems, role and design of the monetary system differed widely. During this turbulence the program is decomposable, there is no consensus on the problem set. The coalitions (e.g. West and G-77) have their own theory of cause and effect, ends and means (Haas 1990:81f,120; (Spero & Hart 2003:199). On opposite sides of the

spectrum were US (liberalism) and Japan (mercantilism) (Story 2000:131). Examples of institutionalization during this period, among others, are the introduction of WEO and the oil facility (see p 17). Haas, on the contrary, claims that institutionalization is impossible under the turbulent model while in reality the case was the opposite (Haas 1990:121). The legitimacy of the Fund was unclear at this time period as the role and the mere existence of the Fund was questioned and the Fund's inability to respond to its members needs was exposed during the petrodollar recycling problem. The demands for reformation from the G-77 and the increasing use of the Western countries to use the G-7 meetings as cooperation mechanism instead of IMF are examples of the uncertainty regarding Fund legitimacy among its members (Spero & Hart 2003:32,185). The authority of the Fund decreased during this time period as members found other ways to solve its problems (e.g. through private banks, G-7 summits etc.) (James 1995:779). Both these developments are consistent with the turbulent model (Haas 1990:121).

A very important event during this period was IMF meeting in Jamaica, 1976 that eventually resulted in the formulation of the Second Amendment of the Fund Articles of Agreement. This was a move away from rules towards a legal foundation for coordination based on discussion, persuasion, and the exchange of information (i.e. knowledge); a common understanding was reached about a stable policy framework in which the market was exposed to as few surprises and shocks as possible (James 1995:771). The Second Amendment meant that the floating rates received were legitimized and gave the Fund the mandate to exercise surveillance over the members' exchange rate policies and management of national economic policies (Spero & Hart 2003:26f). This allowed the Fund to act as a consultant in international debt management in the years to come (Joseph 2000:55). The IMF had come to the conclusion that its effectiveness relied on the quality and candor of the dialogue between the Fund and each of its members. The Fund should rely on persuasion when implementing surveillance, not prescription. The IMF's programs and the attached conditionality were now seen as just an extension of the surveillance. The surveillance involved a continuous exchange of information as means of persuasion; to supply information and ideas (as well as funds) now became the major means in which the Fund sought to guide policymaking. In accordance of this strategy the Fund started to publicize the WEOs (James 1995:776f). One of the mechanisms of the surveillance was the annual bilateral meetings between IMF staff and member countries; a staff team would be sent to the country to collect information, review the policies and then hold meetings with the authorities regarding the effectiveness of current policies and prospective changes. After this the staff reports backs to the Executive Board (Lastra 2000: 515). Surveillance was now regarded as among the most important responsibilities of the Fund (Dale 1984:3).

### 4.3 The managed interdependence model; 1980 and onwards

The managed interdependence model is the only model that's capable of inspiring a redefinition of the organization's mandate. Empirical testing has shown that reconceptualization leads to nearly decomposable sets of problem definitions. The knowledge being purveyed by experts as relevant to improve the organization's performance is becoming more consensual, the objectives, as seen by politicians, are expanding and becoming more interconnected. The decision-making style is pragmatic and/or analytic, issue linkage is fragmented and intercoalitional bargaining is becoming almost similar (Haas 1990:96).

After the second oil crisis in 1979 debtor countries (that had borrowed large amounts during the petrodollar recycling) were hit hard by the increasing oil-price, the increased restrictive monetary policies by the major industrial countries that led to record high interest rates and an increased debt burden, and by world recession (the most severe since the 1930s) that led to a plunge in the demand and prices of LDC exports. However banks still continued to loan and debtor countries continued to borrow, further increasing the debt burden that grew larger and harder to service for each day. By 1982 LDC debt was 264 percent above the level of 1975. The “debt crisis” erupted when Mexico (and after that many other countries) announced that it was unable to service its debt (Spero & Hart 2003:35,206ff; Bernstein 1984:5). As a response to the increasing needs of debtor countries the Fund introduced longer repayment periods, an enlarged access policy to provide additional financing and a general increase of quotas (Garritsen de Vries 1985:9). The Fund had also come to the realization that it had to place heavier emphasis on adjustment and less on financing (Dale 1984:3). IMF now assumed the new role of financier and overseer of national economic policies of developing countries. The IMF strategy for debt management consisted of strict austerity programs (structural adjustment programs), new lending through supplementary financiers, and rescheduling of old debts with creditor governments (Spero & Hart 2003:36,209).

At time of crises change, in an IO, may occur; an example of this is the Fund’s new role of managing global debt after the Mexico crisis. It’s argued that the surveillance experience and the role as a facilitator of supplementary financiers made IMF indispensable in preventing further financial crises during the 1980s (Joseph 2000:53ff). The shared consensus of the time among major powers was the conviction that internal self-discipline, reinforced by IMF surveillance and programs, would have positive external effects (Pauly 2000:125). IMF staff assembled the information and data that the structural adjustment programs were built on; hence the epistemic community in the Fund played a large role. These epistemic communities work as triggers of learning, at a time of crisis knowledge promises better solutions to the old problems (in this case the problem of balance-of-payments a.k.a. BOP) (Haas 1990:45,146). The role of the epistemic community and the information (i.e. knowledge) it provides grows more important during a crisis, as the crisis call into question the understanding of an issue area (as illustrated by the move from financing to adjustment in BOP problems) and is likely to precipitate a search for new information (e.g. through enhanced surveillance). Peter Haas quotes an article by Ernst B. Haas in which it’s argued that ‘new scientific knowledge will create a consensual basis for the recognition of new cause-effect links which had not been recognized before’. In general, organizations may be said to learn through the evolution of consensual knowledge (Haas P 1992:14,29f). I argue that the new scientific knowledge in this case is the information that was continuously brought forward due to the increased surveillance undertaken in the late 70’s and early 80’s. When IMF came to the realization that major adjustments must be made to restore a deficit country’s balance-of-payments (i.e. the realization of a new cause effect-link) instead of financing, and that additional funding wasn’t enough, there was, as mentioned, a shared consensus about the cause-effect links (the relation between internal self-discipline and BOP balance). This shared consensus had grown out of the experiences of the crash of the Bretton Woods system and the petrodollar recycling (of which the Second Amendment was a result of) (Dale 1984:3, Garritsen de Vries 1985:9, Pauly 2000:125).

Another evidence of the increasing importance of surveillance was the redesign of G-5 (Group of 5) meetings; France had urged greater policy coordination as ‘there is a lot we [the



G-5 countries] can learn from each others' experience'. The new design meant that the IMF's surveillance exercise would be used directly as a basis for policy discussions of the G-5 and that the IMF Managing Director would attend their meetings. In 1986 did the G-7 reach an agreement on the use of indicators in multilateral surveillance (IMF now had to provide a more specific data set) and that the WEO would be expanded. This meant that the IMF role in the global surveillance process was strengthened and the indicators helped to 'crystallize a consensus about the operation of economic policy...The watchwords of this consensus are stability and sustainability (James 1995:781ff). Please observe the earlier notion of learning through the evolution of consensual knowledge (p.21).

During these years the predominant ideology of the Fund, managed liberalism, received opposition from the growing classic liberalist movement under Reagan in the US and Thatcher in the UK (Haas 1990: 149). In consistency with the managed interdependence model the debate was dominated by these two ideologies (Smith 1984:214f). The representation is qualified by state attribute and the autonomy of the secretariat is based on civil service criteria and partial penetration (see 4.1). The Executive board espouse the official line of the IMF, hence there isn't full penetration. The status of experts is described by Haas as "epistemic communities favored", the staff of the Fund is autonomous but they demonstrate an allegiance to the liberal ideology (Joseph 2000:50,55). By referring to the earlier discussion, regarding the increased importance of epistemic communities in regards to the development of surveillance and the debt crisis, it's valid to label them "favored". The revenue base is still capital subscriptions, however see the discussion on page 18 (Haas 1990:146). The administration at this time is shared. On example of this is how IMF started to assist its members in design and implementation of adjustment programs. E.g. in providing technical assistance the IMF staff supervises the local personnel (Garritsen de Vries 1985:9, Lastra 2000:521). During several months, key economic policymakers in the debtor country and IMF staff together work out the adjustment programs (Kreuger 2000:38). The monitoring of compliance through consultation, reporting and some sanctions was further increased (Haas 1990:146ff). Examples of this are the structural adjustment programs, sanctions in the form of installed payments and the development of monitoring programs through debt statistics in the Bureau of statistics (Cohen 1982:464, Dale 1984:3). All of the above mentioned variables are consistent with the managed interdependence model (Haas 1990:132ff).

Voting, according to Haas, was occasional by qualified majority. This has occurred in cases of staffing and standby arrangement negotiations (1990:146, IMF 1, Cohen 1982:464). However the aim was (and still is) to reach a consensus in favor of recorded votes (Naím & Kapur 2005: 96). As mentioned on page 14 and 19, the budget form is planning, the personnel recruitment is based on merit and there's no role for NGOs for this time period as with the others (please note my objection on the role of NGOs on p.19). These variables, with the exception of the role of NGOs, are all consistent with the managed interdependence model. The personnel recruitment in the model, as opposed to the IMF, leaves some room for quotas (Haas 1990:134f). The leadership of the executive head is characterized as crisis management, both in the managed interdependence model and in Haas' study (ibid 135,146). The Managing Director at this time played an active role and important role in arranging financial "packages", involving all parties with an interest in the specific case (debtors, creditors, and IMF) (Garritsen de Vries 1985:9f).

Knowledge became more consensual, as argued on page 21 and 22, during the 1980s. Internal self-discipline, enforced by surveillance and adjustment was thought to be the key to

solving the problems (James 1995:780ff, Smith 1984:214). The political goals are seen as interconnected and dynamic both in the managed interdependence model and in Haas' study (Haas 1990:135,146). It was believed that in order for debt repayment and growth to occur a combination of economic reforms and new financial flows had to take place. Debtors had to meet strict austerity programs and implement market-oriented structural changes in return for additional loans (Spero & Hart 2003:208ff). The decision-making style within the IMF was pragmatic, consistent to the managed interdependence model that contains either a pragmatic or analytic style. This less formal way of deciding prevails as it's needed to hold the coalition together and to reach compromises with opposing coalitions (Haas 1990:136,146). International cooperation was seen as necessary in a time of crisis, which meant that compromises had to be made (Spero & Hart 2003:36). The issue linkage is categorized as fragmented by Haas, both in the cases of the IMF and the model (Haas 1990:136,146). The issue specific political aspirations might include different sorts of requirements to be met under the conditionality provision but there are strong strands of causal understandings among the issues (the need for restructure, debt repayment and growth). The bargaining among lenders became simpler due to the consensus that the debt crisis had to be contained in order to avoid world recession. However many of the borrowers did not agree with the conditions imposed on them (Spero & Hart 2003:37,212). The bargaining styles are dissimilar but not as much as during turbulence and the bargaining is therefore labeled "almost similar", this is consistent with the managed interdependence model (Haas 1990:136,148).

The problem definition changed as the overall health of national economies and the global economy became the core of the nested problem set (ibid, Spero & Hart 2003:35f). This is an example of a nearly non-decomposable set; it's non-decomposable because the bargainers have to do some compromising regarding the basic principles in assembling the set (see above) (Haas 1990:85, James 1995:780f, Spero & Hart 2003:36). As the IMF tried to contain the debt crisis institutionalization increased. The increased use of surveillance, the introduction of longer repayment periods and the enlarged access policy, structural adjustment programs and the introduction of special facilities such as SAF (Structural Adjustment Facility) and ESAF (Enhanced Structural Adjustment Facility) serves as proof of the institutionalization (Lastra 2000:518). At first the IMF authority and legitimacy increased; countries pursued reforms, the resources were increased and the Fund was seen as, as President Reagan said, 'the critical linchpin of the world economy' (Smith 1985:215, Spero & Hart 2003:36,210). However the case was not the same according to the debtors, in 1984 Argentina resisted a proposed IMF austerity program and refused to pay interest on its debt and some other smaller debtors suspended payments (Spero & Hart 2003:212). In general it can be said that the authority increased, as most debtors agreed to the conditions, but the legitimacy was unclear. Support of the IMF in the leading power, USA, eroded and even if LDCs approved the conditions imposed on them it was unwillingly as they saw how their economies fell into recession and how the austerity programs undermined their long-term ability to service their debts (Smith 1985:216, Spero & Hart 2003:209,212). This evolution of the authority and legitimacy, along with the increased institutionalization, is consistent with the managed interdependence model (Haas 1990:137f).

## 5. Conclusion

First of all I want to point out that, as Haas also admits, the attributions and labeling of “success” are artifacts of the observer’s perspective. Haas admits that his measure of successful learning is deeply enmeshed with the predominance of Western ways of thinking (Haas 1990:148f). Even if the international financial community succeeded in containing the debt crisis of the 1980s (Spero & Hart 2003:36) it’s a fact that the knowledge that informed the policies (that were used to manage the crisis) was not truly consensual as it was effectively manipulated to the West’s advantage by epistemic communities that were themselves Western and favored by the dominating actors of the IMF (Haas 1990:149). It’s also important to remember that even if the Fund is a case of “successful organizational learning” it doesn’t necessarily mean that its solutions and programs are better. History shows that after Haas’ book was published (and IMF was considered a case of successful organizational learning) the IMF was involved in a number of cases (especially during the Asian crisis the 1990s) in which the policies suggested by the IMF were not adequate and austerity programs and structural reforms were seen as aggravating the crisis, causing social and political dislocations and intruding on national prerogatives (Spero & Hart 2003:55f, 219). It’s argued that IMF conditionality offers a demand-based solution to what is just as much a supply-side problem. IMF programs are based on a monetary model of BOP, focusing on controlling domestic monetary aggregates and creating an attention bias toward monetary excesses as principal cause of BOP problems and away from fiscal imbalances that stem from structural weaknesses in production and trade. Evidence shows that BOP difficulties in LDCs are caused by external factors as adverse movements in terms-of-trade or increases in world interest rates (a main factor of the debt crisis) as well as domestic mismanagement (Bird 1996:490f).

Haas argues that the IMF learning took place when IMF assumed the role of financier and overseer of national economic policies in LDCs. According to Haas was IMF conditionality (or rather the increased use and importance of it), due to its role as a prerequisite for receiving and giving loans, the reason for the change in IMF beliefs and routines. As mentioned earlier (p.12); for learning to take place it’s necessary with reevaluation, meaning that beliefs of cause and effect are examined and questioned. With the dominant states shared consensus that internal self-balance was the key to prosperity, exemplified by President Reagan’s emphasis on responsible domestic policies ‘[U]nless a nation puts its own financial and economic house in order by providing economic incentives and commercial opportunities, no amount of aid will produce progress’ (Smith 1984:214f), conditionality was seen as the key to solve the problems (Haas 1990:147ff). The Fund had now come to the realization that it had to place heavier emphasis on adjustment (through conditionality) and less on financing (Dale 1984:3). I therefore interpret Haas as viewing the new dominant role of conditionality (due to the debt crisis) as the cause for the organizational learning. However I argue that the Second Amendment and the coming of surveillance was the real cause for learning, after all “the IMF’s financial programs and the conditionality attached to them could be regarded as nothing more than an extension of the surveillance procedure” (James 1995:775). As a matter of fact, surveillance constituted a prerequisite for effective support operations (ibid) i.e. surveillance was a prerequisite for conditionality. I believe that Haas should have taken his analysis of the

cause of learning one step further and included surveillance, in his analysis of IMF Haas doesn't even mention the word surveillance at all!

So the answer to my initial question, "What is (are) the cause(s) for IMF being a case of successful organizational learning?", is then that it's the introduction of the Second Amendment that is the cause. The Second Amendment served as a prerequisite of conditionality and it enabled IMF to take the step from financing to adjustment, this is why it's the underlying cause for the IMF being a case of successful learning. The knowledge and information that was provided and served as the foundation of the main mechanisms of surveillance, the bilateral meetings and the WEO, was gathered and compiled by IMF staff i.e. they were in control over knowledge and information which meant they had extensive power (Haas,P 1992:2). By stating that: "we [IMF] came to the realization that higher energy prices were here to stay [after the second oil crisis of 1979], and therefore, instead of financing with a light emphasis adjustment, we needed to reverse what had been the response in the mid-seventies. It was from that time the heavier emphasis came on adjustment with relatively less emphasis on financing" (Dale 1984:3), the Deputy Managing Director of the Fund during the early 80s, William B. Dale, confirms the hypothesis raised in the introduction about IMF learning from its previous engagements.

I also mentioned in the introduction that, besides finding factors the factors explaining the organizational change, my study intended to test Haas' theory empirically. In general I believe that there's strong evidence for Haas' identification of the incremental-growth model and the managed interdependence model as disclosed by analysis. However I can't see very strong linkages between the turbulent non-growth model and reality, as there are many variables that empirically aren't consistent with the model. I think that a better way, or more accurate way, to divide up the organizational design would have been through just a dual way: a period of adaptation up until the later half of the 70s and from there on a period of learning. I view the period that he identifies as turbulent non-growth as merely a period of transition between adaptation and learning. I believe that Haas should have been better off by sticking to describe organizational change through the "adaptation" and "learning" processes that he initially does (1990:3).

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# Appendix 1. World Order Ideologies.

Source: Ernst B. Haas, 1990 "When Knowledge is Power". Page 66.

| Ideology                  | Purpose of collaboration  | Form of collaboration   |
|---------------------------|---|---|
| Classical liberalism      | Create global rules permitting market forces to work freely; reduce transaction costs for all state and private activities. Including the maintenance of peace  | As many organizations as seems required by specific tasks, with limited powers; emphasis on rule of law; no central coordination.   |
| Managed liberalism        | Create global rules to protect valued national institutions and practises insofar as recognized international interdependence requires this for national practices to flourish.   | As many organizations as seems required by specific tasks; willing to delegate power as suggested by extent of recognized interdependence; central coordination accepted as needed.           |
| Structural antidependency | Create global rules to protect maximum national autonomy in order to restrain developed countries.  | Hierarchical, coordinated, powerful organizations to force global redistribution of wealth and power, and to constrain developed states; regionalism to attain separation from global economy |
| Pragmatic antidependency  | Create global rules to protect maximum national autonomy in order to restrain developed countries, but within limits of recognized and unavoidable international interdependence  | Coordinated organizations sufficiently powerful to advance redistribution of wealth and power and compel linkages among issues without delinking developing countries from global system      |
| Ecoholism                 | Create global rules and programs designed to reflect the perception that all is interdependent with everything, that the global system is decomposable; collaboration linking peace to global resource management and development | Global planning with quasi-world government; alternative: breaking up states and seeking new small-scale organizations  |

## Appendix 2. Repertory of Organizational Powers to Assure compliance with Decisions

Source: Ernst B. Haas, 1990 "When Knowledge is Power". Page 68.

| Power                       | Description  | Examples  |
|-----------------------------|--|---|
| Consultation                | All organizations conduct formal consultations about major agenda and program items in consultative bodies specializing on the major issues. Issues of special concern to executive head or some member states can be introduced                     | Annual reviews in committees of the U.N. General Assembly.                |
| Ad hoc reporting            | Following a consultation and a decision, member states and/or the secretariat are asked to keep the decision-making body informed of compliance with decision  | U.N. Security Council   |
| Regular reporting           | Many decisions, especially those that take the form of conventions, require the submission of regular reports on the degrees of implementation   | Conditional financing by IMF  |
| Examination of reports      | Reports are scrutinized by committees of experts and instances of apparent noncompliance further examined, usually requiring testimony by, or correspondence with, government concerned  | Same as above   |
| Investigation of complaints | Ad hoc, not in violation of a convention. Optional, if government has agreed to open itself to investigation of complaint alleging violation of a convention. Compulsory, if government has committed itself to this step                            | U.N. human rights commissions. Council of Europe, OAS<br><br>IAEA         |
| Sanctions                   | Taking any of the following punitive steps designed to bring the state into compliance with a decision or obligation:<br>Public denunciation<br>Termination of financial assistance<br>Trade/financial/communications embargo<br>Military operations | ILO, WHO, IAEA<br>IMF, IBRD, UNDP<br>U.N., OAS, OAU<br><br>U.N., OAS, OAU |



# Appendix 3. The learning model and the IMF

Source: Ernst B. Haas, 1990 "When Knowledge is Power". Page 146.

| Characteristic        | 1945-69   | 1971-79   | 1980-   |
|-----------------------|---|---|---|
| Ideology              | Managed liberalism                              | Managed liberalism                              | Managed liberalism                              |
| Representation        | Qualified by state attribute. No role for NGOs  | Qualified by state attribute. No role for NGOs  | Qualified by state attribute. No role for NGOs  |
| Secretariat autonomy  | Civil service, partial penetration              | Civil service, partial penetration              | Civil service, partial penetration              |
| Status of experts     | Independent, large role for epistemic comm.     | Independent, large role for epistemic comm.     | Independent, large role for epistemic comm.     |
| Revenue base          | Capital subscriptions                           | Capital subscriptions                           | Capital subscriptions                           |
| Administration        | Indirect  | Indirect  | Shared  |
| Monitoring            | Consultation, reporting, examination of reports | Consultation, reporting, examination of reports | Intensive reporting and consultation. Sanctions |
| Voting                | None  | None  | None  |
| Budgeting             | Planning  | Planning  | Planning  |
| Personnel recruitment | Merit   | Merit   | Merit   |
| Role of NGOs          | None  | None  | None  |
| Leadership            | Subject to dominant coalition                   | Crisis management                               | Crisis management                               |
| Knowledge             | More consensual                                 | Less consensual                                 | More consensual                                 |
| Political goals       | Specific-dynamic                                | Confused  | Interconnected-dynamic                          |
| Decision-making style | Analytic  | Eclectic  | Pragmatic                                       |
| Issue linkage         | Substantive                                     | Fragmented                                      | Fragmented                                      |
| Bargaining            | Similar   | Dissimilar                                      | Almost similar                                  |
| Problem definition    | Nondecomposable                                 | Decomposable                                    | Nearly nondecomposable                          |
| Institutionalization  | Yes   | Yes   | Yes   |
| Authority             | Increase  | Decrease  | Increase  |
| Legitimacy            | Increase  | Unclear   | Unclear   |