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Mission Creep, Mission Push and Discretion in Sociological Perspective: The Case of IMF Conditionality*

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> The most important thing about organizations is that, though they are tools, each nevertheless has a life of its own.
> --Philip Selznick (1949) in *TVA and the Grass Roots,* p. 10.

In recent years, the Bretton Woods organizations have been subjected to intense scrutiny and pressure to change. Founded at the end of World War II to help lay the foundations of a new era of stability and prosperity, the World Bank and the International Monetary Fund (IMF) are widely viewed as having evolved in ways that would have surprised their founders. A term that has gained popularity among World Bank and IMF critics is "mission creep," or the systematic shifting of organizational activities away from original mandates (cf. IFI Advisory Commission 1998; Stiglitz 2002; Einhorn 2001; Bretton Woods Project 2003).

The case of the IMF is arguably the more dramatic of the two. The IMF's original purpose as it was conceived in 1944 was to establish a code of conduct that would enhance economic cooperation, and avoid the "beggar-thy-neighbour" policies that led to the economic turbulence of the thirties. This code of conduct required members to establish par values (which could only be changed with international agreement in cases of "fundamental disequilibrium") and to work toward lifting restrictions on current payments. By lending the currencies of members in strong balance of payments and reserve positions to countries in weaker positions, it was intended to insulate them from the need to undergo deflations.

Over time, however, the functions and activities of the Fund changed along with the introduction and expansion of "conditionality"--the policy measures member countries must adopt in order to have access to the IMF's resources. Initially, the Fund's conditions were aimed at reducing excess demand by cutting fiscal deficits and restricting the growth of the money supply. But over time, conditionality expanded to include the adjustment of national currencies and the terms of repayment of private creditors. Most recently, they have come to include the privatization of public enterprises, trade liberalization, the reform of banking and bankruptcy legislation, anti-poverty measures, and the prevention of money-laundering and terrorist financing—to name some of the most prominent items. Clearly, the Fund has changed considerably.

The issue of mission creep in international financial institutions is often treated by its critics as if it were a problem unique to these organizations in particular, attributable to perverse and unusual circumstances (cf. Stiglitz 2002, Einhorn 2001). For sociologists who study organizations, however, the phenomenon of mission creep is neither new nor unusual. Since Michels' (1959[1915]) classic study of the German Social Democratic Party, sociologists have observed that public service organizations are not just means to pursue predetermined ends, but rather tend to become ends in themselves, more preoccupied with their own survival than with fidelity to the intentions of their founders (cf. Selznick 1949; Zald and Denton 1963; Messinger 1955; Gouldner 1954). Missions, these studies all observed, have a tendency to creep—a tendency that is fueled both by internal organizational dynamics, and by the co-optation of organizations by powerful forces in their environments.

This paper examines historical evidence of mission creep at the IMF, and explores the organizational dynamics that may have contributed to this process. To this end, we have drawn on an eclectic array of sources, including Letters of Intent from borrowing governments, secondary literature, and IMF staff analyses. Synthesizing this evidence, we describe and account for three separate phases in the expansion of conditionality: the establishment of fiscal and monetary conditions in the 1950s; the introduction of debt-related conditions in the 1970s; and the introduction of liberalizing, governance, and a host of other reforms since the 1980s. We argue that during the earliest phase, the Fund underwent a process of bureaucratic consolidation commonly observed in complex organizations, in which its procedures were standardized and routinized (cf. Weber 1946). During the second phase, the IMF developed a mutually beneficial relationship with private creditors, a development that had an additive rather than a transformative effect on the Fund's practices.

In contrast to these two first phases, we argue that the most recent phase has marked a significant break with the past. Whereas the first period in the Fund's evolution was associated with the development of standardized rules, this latest stage is linked to the rise of "discretional conditionality:" the increased dependence of disbursements and lending arrangements on the judgments of Management and Staff, rather than on clear rules determined at the outset. We conclude that this reversal cannot be attributed primarily to internal bureaucratic factors, but rather responded to the demands of the Fund's most powerful organizational constituent: the U.S. Treasury. Thus, "mission push" seems to be the most accurate way of describing recent developments in IMF conditionality.

Mission Creep: The Evidence

The IMF's original purposes, as outlined in Article I of its 1944 Articles of Agreement, were both to promote international trade and economic integration (through removing barriers to trade and current payments), and to "contribute…to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy" (IMF 1944). The IMF's two principal intellectual influences--John Maynard Keynes and Harry Dexter White--had been convinced by the experience of the Great Depression that international financial markets could not be trusted to govern themselves, and that space needed to be created for national governments to conduct relatively autonomous economic policies. In contrast to the early 20th century gold standard, the Bretton Woods regime was supposed to enable national policymakers to pursue the goals of economic growth and high levels of employment and real income at home, rather than simply reducing the money supply in order to defend the exchange rate (Ruggie 1983, Ikenberry 1992). Recently, however, Joseph Stiglitz has argued that Fund ended up doing exactly the opposite of what it was intended to do: in his estimation, "Keynes would be rolling in his grave were he to see what has happened to his child" (Stiglitz 2002:13).

Stiglitz and other critics focus primarily on the IMF's policy of conditionality, which was not part of the original Bretton Woods plan: the 1944 Articles of Agreement contained no provision for conditions to be placed on lending arrangements. During the 1950s, the Fund developed a practice whereby access to its resources would be contingent upon agreement to implement certain policies, and the Standby Arrangement became the legal vehicle through which these policy promises were made and enforced. It was not until 1969 that the Fund's *de facto* policy of conditionality was given *de jure* legal sanction, through an unassuming amendment to Article V, section 3(a).[1] It was not until a decade later that the Fund published a set of *Guidelines on Conditionality.* These *Guidelines* recommended that conditions be kept to a minimum, but imposed little obligation on Fund Staff to adhere to them. Only a decade later, as we will see, the number of conditions had expanded dramatically (Gold 1996: 169, 361; Polak 1991:53). Prompted by this proliferation of conditions, as well as high rates of program failure, a new set of *Guidelines* was published in 2002.

[1] This amendment stated that "The Fund shall adopt policies on the use of its general resources, including policies on stand-by or similar arrangements , and may adopt special policies for special balance of payments problems, that will assist members to solve their balance of payments problems in a manner consistent with the provisions of this Agreement and that will establish adequate safeguards for the temporary use of the general resources of the Fund" (IMF 1969).

Because of the legal peculiarities mentioned above, conditionality cannot be studied through an exegesis of the Articles of Agreement. An alternative means of studying changes in IMF conditionality over time is through examining Letters of Intent: the quasi-contractual documents outlining the terms of IMF lending arrangements. Letters of Intent contain "performance criteria"--formal conditions that must be met in order for the loan disbursements not to be suspended—and provide concrete evidence of the expansion of conditionality over time. For example, the first Standby Arrangement with Peru in 1954 was only two pages in length, and contained no explicit performance criteria. The 1963 Peruvian Standby was six pages long, and contained fiscal and monetary targets, as well as prohibitions on exchange restrictions and multiple currency practices. By 1993, Peruvian officials were signing a standby arrangement that was thirteen pages in length, and that included not only the types of conditions required by the 1963 agreement, but also targets for the international reserves of the central bank, limits on external debt, a prohibition on implementing import restrictions "for balance of payments reasons," and explicit provisions for trade liberalization, privatization, and the deregulation of Peruvian labor law (Peru LOI 1954, 1963, 1993).

In the following sections, we draw on Letters of Intent and other sources to show that conditionality expanded in three cumulative stages, each of which built upon its predecessor in a pattern resembling geological stratification. The first stage was the development of the monetary approach to the balance of payments in the 1950s, which made fiscal and monetary conditions a standard element of IMF programs. The second stage, which emerged in the 1970s, was the increasing involvement of the IMF with private creditors, and the inclusion of conditions designed to ensure the prompt and orderly repayment of debts. The third stage, which began in the 1980s, was the development of "structural" conditionality. This most recent phase has been associated with an increased reliance on the discretion of Management and Staff.

The Monetary Approach: 1950s to the Present

Developed over the course of the 1950s, the Fund's "monetary approach to the balance of payments" identified credit expansion—often the result of financing fiscal deficits through central bank emissions—as the primary cause of persistent external imbalances. If a national government increased domestic credit too rapidly, causing a deficit in the balance of payments and a loss in central bank reserves, the real value of its currency would inevitably decline, and balance of payments pressures would eventually force governments to devalue. Significantly, devaluation alone might not be sufficient to bring about external balance; rather, the government needed to crack down on excess demand through diminishing the money supply (Alexander 1952; Polak 1957; De Vries 1987:7-30).

This theory was associated with the development of "financial programming:" the technique used by Fund staff to estimate the domestic demand for money, set a target for international reserves, and use these figures to calculate fiscal and monetary targets a government needed to reach in order to stem inflation (Cline 1981: 175-6; Williamson 1982:29). While the fiscal and monetary conditions applied in the 1950s and 1960s tended to assume the form of ceilings on fiscal deficits and net domestic credit, from the 1970s onward, lending arrangements also typically included direct targets for international reserves. These prescriptions were first put into practice in Latin America and the Caribbean under the jurisdiction of the Fund's Western Hemisphere Department, and were later applied by other regional departments, as the Fund became more standardized (Finch 1997: 67-72).

The Alliance with Private Creditors: 1970s to the Present

With the collapse of the Bretton Woods system at the beginning of the 1970s, the Fund was no longer responsible for upholding the par value system. Meanwhile, access to international credit allowed many developing countries to avoid resort to IMF conditionality entirely by borrowing from private sources; as a consequence, the number of Fund lending programs decreased dramatically. Desperate for customers, the Fund even found itself having to soften some of the conditions required for its loans (Polak 1991).

This temporary softening of fiscal and monetary conditions notwithstanding, the 1970s also marked the beginning of a second phase of expansion, in which conditionality began to address relations between governments and their private creditors. The Fund's relationship to the private banks during its first several decades had been arms-length in character (Gold 1988). But by the end of the 1970s, Letters of Intent routinely included the requirement that governments be making regular payments to their private creditors (i.e., minimizing arrears), and limiting their incurring of new external debt.[2] With the outbreak of the Third World debt crisis in 1982, the Fund played an instrumental role in averting disaster by keeping governments from defaulting, while simultaneously requiring banks to grant new loans and restructure existing debt.[3] From that time forward, the Fund and the private banks would have a close working relationship, and lending conditions relating to private creditors were ubiquitous. For example, in Letters of Intent for six Latin American and Caribbean countries from 1982 to 1996, nearly 80

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2 Source: Letters of Intent from Argentina, Bolivia, Brazil, Haiti, Jamaica, and Peru, 1970-79.

3 In a sense, the approach followed on this occasion constituted a major departure from the normal Fund approach to program formulation. The previous standard operating procedure had previously been to estimate the availability of financial resources as the starting point for the design of the program, and on that basis working out the permissible credit expansion and fiscal balance. In response to the debt crisis, however, the Fund constructed programs based on an estimate of how much debtors could be expected to adjust without resorting to default. Thus the usual approach to program design was reversed.

percent contained the performance criterion that governments not fall into external payments arrears—compared to less than 20 percent from 1972-81.[4]

Structural Reforms and Beyond: 1980s to the Present

The third phase in the expansion of conditionality began in the 1980s and when lending arrangements began to require "structural" reforms. Earlier generations of IMF conditions tended to focus on transitory variables having a bearing on a nation's short-term balance-of-payments: price stabilization, the reduction of the fiscal deficit, net domestic credit, the level of external debt, etc. Structural conditionality, in contrast, was aimed at the fundamental transformation of the underlying institutions governing national economies.

Structural conditionality represented a major departure from past practices. The conditions of prior decades were both circumscribed and temporary: they mostly left underlying institutional arrangements untouched, and once the IMF lending arrangement expired, a government could in theory go back to whatever fiscal and monetary policies it wanted. In contrast, structural conditionality was oriented toward making deep changes that were much more difficult to reverse, such as privatization and trade liberalization. The philosophy behind this new generation of reforms was also new. During the postwar period, the IMF had focused primarily on promoting an agenda of fiscal and monetary austerity, and generally stayed away from the issue of free-market reforms (Webb 2000:100-10). Thus, earlier generations of Fund critics focused on the negative impact of fiscal and monetary contraction on economic growth and employment (Felix 1961; Thorp and Whitehead 1979; Dell 1981); it has only been in recent decades that the IMF has also been accused of promoting an agenda of "market fundamentalism" (Stiglitz 2002).

4 Source: Letters of Intent from Argentina, Bolivia, Brazil, Haiti, Jamaica, and Peru, 1971-96.

The ostensible justification for structural conditions was that the IMF's organizational mandate was not only to promote balance-of-payments stability, but also to promote growth (cf. Camdessus quoted in Polak 1991: 19). In theory, this was consistent with the original Articles of Agreement, which stated that a purpose of the Fund was "….to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy" (IMF 1944 I(ii)). In practice, however, structural conditionality was based on a contestable premise: namely, that in all cases, the best recipe for growth lay in the liberalization of market forces[5], privatization and the reduction of the role of the state, irrespective of the structural and constitutional and regulatory framework[6], in the context of monetary stability.

Significantly, the expansion of the Fund's mandate to include structural conditionality was viewed with skepticism by some among the IMF Staff's "old guard." Joseph Gold, the long-time director of the IMF's legal department, asserted that "In neither logic nor law is it defensible to transform the [Fund's] purpose into jurisdiction over economic growth" (Gold 1996:484). The most controversial element of the new conditionality was the requirement that governments remove controls on the free movement of capital, a goal endorsed by the Fund's Interim Committee in 1997. Jacques Polak (the renowned author of the IMF's original "monetary approach to the balance of payments") has pointed out that "The promotion of the worldwide flow of capital is not listed among the purposes of the Fund in Article I," and opposed the revision of the Articles of Agreement to include this as part of its mission (Polak 1998:49). The

5 Three recent Nobel laureates have challenged this "first best" belief, showing it rests on very restrictive assumptions about perfect information that are rarely met and that even small deviations from this paradigm lead to very different outcomes. See Nobel lectures by Ackerlof, Spence and Stiglitz. Other Nobel laureates challenging the paradigm include Douglas North and Daniel Kahneman.

6 The sharp fall in output in Russia, Moldova and other former Soviet republics underscores the importance of the institutional and legal framework. Contrast this with high growth experience of China, where management was reformed to foster competition but the property of many enterprises remains in the state.

original Articles of Agreement not only asserted the right of governments to maintain capital controls as a buffer against speculative capital inflows and outflows, but had actually encouraged them (Boughton 1997:9).

Such objections notwithstanding, the IMF's involvement in promoting structural reforms expanded rapidly. In keeping with the Fund's new "growth-oriented" philosophy, new varieties of lending packages were introduced for low-income countries: the Structural Adjustment Facility (SAF), introduced in 1980,[7] and the Enhanced Structural Adjustment Facility (ESAF), introduced in 1987. In 1999, the ESAF was replaced by the Poverty Reduction and Growth Facility (PRGF). Like the ESAFs, PRGF programs are designed exclusively for very low income countries, last three years, and carry a low rate of interest. Unlike ESAF programs, PRGF arrangements have somewhat fewer structural conditions, and include "pro-poor" performance criteria (IMF 2002a:21). However, although their name suggests a complete change in focus, in most respects, PRGF programs resemble those of other lending facilities, and contain the standard elements of fiscal and monetary, debt-related, and structural conditionality.

In contrast to traditional Standby Arrangements, which typically lasted only one year, these new types of arrangements were all "medium-term" facilities lasting several years, in recognition that structural reforms might take longer than balancing internal and external accounts. However, Standby Arrangements also soon came to include structural conditions, with the result that the difference between Standbys and the newer lending arrangements today lies primarily in the length of the program and the terms of repayment—not in the content of conditionality. The average number of structural performance criteria per program rose sharply during the late 1980s and 90s, passing from 2 in 1987 to 6 in 1990, 12 in1995 and 16 in 1997 declining to 12 by 1999. The number of structural policy commitments peaked during the Asian

[7] The SAF was phased out in 1995.

financial crisis, with the programs with Korea including 94 structural conditions at their peak, 73 structural conditions applied to Thailand, and 140 to Indonesia (IMF 2002a)

Structural conditionality has not been confined to market liberalization. In recent years, IMF conditionality has been expanded to include such diverse elements as institutional reforms, poverty reduction, and the fight against global terrorism. The Asian financial crisis of 1997 contributed to a new recognition within the Fund that without a solid legal and institutional framework—strong bankruptcy laws, independent bank regulation and supervision, etc.—markets could not function efficiently. Like the market-liberalizing elements of conditionality, "governance-related" conditions were intended to create deep and long-lasting changes in national economic structures—in marked contrast to the relatively ephemeral fiscal and monetary conditions of previous years (Kapur and Webb 2000). Most recently, the Fund has come to include the fights against money laundering, corruption, and terrorism as factors in conditional lending programs (IMF 2003c). For example, in 2003, Gabon committed to the appointment and financing of a National Commission to Combat Illicit Enrichment (LOI Gabon 2003).

From Rules to Discretion: 1990s to the Present

Over time there has not only been an increase in the volume and the scope of lending conditions, but also a significant change in the *vehicles* of conditional lending. During the past two decades, IMF lending programs have come to depend less on the precise and formal rules laid out as performance criteria in the Letters of Intent, and more on the discretion of Management and Staff.

Since early in the Fund's history, IMF Management and Staff have possessed considerable authority in determining the contents of conditional lending arrangements. In 1948, it was decided that it was unwieldy to have Executive Board members head negotiations with member governments, since such negotiations took place off-site (i.e., in the member nations), rather than in Washington, D.C. (DeVries 1969:11-12; Horsefield 1969:197-8). The pragmatic justification for this practice was that it would have been prohibitively inefficient for Management and Staff to spend weeks negotiating with governments, and then have to go back and renegotiate because the program had been rejected by the Executive Board. From that point onward, the Board exerted authority over lending arrangements only at the "endpoint"—which is to say that it could threaten to veto future programs that it found undesirable, but would rarely fail to approve programs that had already been negotiated (De Vries 1974: 987, Southard 1979: 7). This rule had an important exception: the U.S. Executive Director continued to be consulted before bringing a lending arrangement for consideration by the Board (Woods 2001:87).

These practices notwithstanding, during the Fund's first decades, the discretion of Management and Staff over lending conditions was distinctly circumscribed. Discretion was minimized both by the limitation of conditionality to a standardized set of fiscal and monetary performance criteria, and the formal review of these performance criteria by the Executive Board. Today, in contrast, although there are also "informal" Board briefings on "problem" countries, this formal procedure has largely been circumvented through the enhanced use of prior actions, structural benchmarks, program reviews, and waivers,

Prior actions are conditions that governments must fulfill in order to be eligible to receive an IMF loan in the first place. Prior actions have been present in IMF lending arrangements since at least the 1970s, when governments were often required to devalue their currencies in order to qualify for IMF loans. In recent years, however, they have become both much more numerous and more ambitious in scope; for example, a recent Standby Arrangement with Turkey contains 17 prior actions, covering such diverse policy issues as introduction of legislation governing foreign investment, and the laying off of government workers (LOI Turkey 2003). Lending arrangements averaged less than half a prior action in 1987-90; but in 1997-2000, they averaged more than five (IMF 2002a:29). The use of prior actions has been particularly evident in loans for economies undergoing post-socialist transitions: for example, the Standby Arrangement with Ukraine in 1997 was tied to a startling 45 prior actions (IMF 2002A:33).

Prior actions considerably enhance the leverage of Management and Staff *vis-à-vis* the governments of developing countries. In earlier decades, a Letter of Intent to the IMF committed a government to a series of fiscal and monetary reforms to be implemented in the near future. Today, in contrast, a government in the throes of a balance-of-payments crisis may have to agree to implement a series of policy actions even before a Letter of Intent is signed. Failure to reach agreement through refusing to implement prior actions means not only losing access to IMF resources, but also to the resources of other multilateral agencies (e.g., the World Bank and regional development banks), as well as those private investors who look on a Fund arrangement as “a seal of approval” signaling a government’s creditworthiness.

Structural benchmarks are policy promises, which often take the form of incremental steps toward structural reforms, such as sending a privatization bill to Congress. They were introduced to Fund lending arrangements in the 1980s (IMF 2002a:17). Benchmarks tend to be more numerous than performance criteria. Deviations from structural benchmarks are not formally considered to be grounds for suspending disbursements (cf. Gold 1996:497). However, the IMF’s Policy Development and Review Department recently concluded that there was no clearly developed policy on the extent to which deviation from benchmarks affects the ability of a government to continue to draw on the Fund's resources:

> The delay of one or a few benchmarks would rarely if ever by itself interrupt a program or lead to a requirement for additional measures to complete a review. However, delays in a substantial number of benchmarks could interrupt a review or, at least, would likely require compensating actions. But it is not clear how the staff would determine what constitutes a critical mass (IMF 2001:17).

Thus, it is up to Management and Staff to decide whether deviation from benchmarks causes the interruption of a lending arrangement. They may also decide whether deviation from benchmarks may lead to additional program reviews, discussed below.

Over the past decade and a half, the Fund has also increasingly turned to program reviews and waivers in determining whether lending programs are continued or terminated before disbursement is complete. Reviews are Staff visits to member nations to monitor whether policy conditions are being met; they can be held at biennial, quarterly, or even monthly "test" dates, or at unscheduled dates if deemed necessary by Management and Staff. A recent IMF report on the tools of conditionality acknowledges the enhanced importance of program reviews, and documents their growing frequency from 1992 through 2000 (IMF 2002a: 37). Waivers are decisions to allow disbursements under Fund programs to continue in spite of deviations from performance criteria. Since the 1970s, there has been a remarkable increase in the use of waivers, with a particularly noticeable increase between 1987 and 2000 (IMF 2002a: 22-24).

Program reviews and waivers increase Management and Staff discretion because performance criteria—the formal terms of the loan—are usually not met. In a study of IMF programs from 1973 through 1997, Mussa and Savastano (1999) found that in a majority of cases, borrowing governments were unable to meet performance criteria. Upon discovering such a deviation, it is up to Management and Staff to decide whether to make a recommendation to the

Executive Board that the government be granted a waiver—recommendations that are usually followed by the Board (Mussa and Savastano 1999). Under these circumstances, it is in the borrowing government's best interests (and also in the interest of the Executive Director representing the borrowing government) to cultivate the goodwill of the IMF staff members with which it is negotiating. A government that is caught in deviation from performance criteria can enhance its chances of receiving a waiver if it can demonstrate compliance with structural benchmarks (IMF 2001:3). Another way governments can cultivate good relations with Management and Staff is to comply with the less precisely specified "policy understandings" (e.g., an informal acknowledgement that it would be a good idea to privatize a state-owned firm) (Williamson 1982: 29).[8]

The increased use of prior actions, structural benchmarks, program reviews, and waivers has increased the authority of Management and Staff at the expense of the Executive Board. The Board normally meets three days a week where it is supposed to discuss and approve *inter alia* lending arrangements. In anticipation of these meetings, Board members are normally provided with staff reports some four weeks ahead of time, which include detailed descriptions of the country's situation and the loan's performance criteria. However, a considerable component of conditionality is negotiated "on the ground" between Staff and borrowing governments. Executive Directors are kept informed of these negotiations through periodic informal Board meetings, and a representative from the office of the Executive Director, is normally present during negotiations with the country. But much of what a borrowing country is required to do in

8 Rumors of this sort of bargain have led to speculation that some governments "trade" fiscal and monetary performance criteria for structural reforms (such an informal deal is believed to have been struck between Fund Staff and the Menem government in Argentina in the 1990s, for example (*Latin American Newsletters* 10/17/96; 11/18/96)). A recent Fund report on conditionality acknowledges that "some critics see the Fund as pressing countries to agree to ambitious programs that it does not expect to be implemented, in order to obtain leverage over the countries' policies…" (IMF 2002a:18).

order to receive and maintain a lending arrangement may not be subject the Board's formal review and approval (except as an *ex post* formality). This is particularly obvious with prior actions, which do not appear consistently in the Letters of Intent, and are not approved by the Board (although they are known to the Executive Director representing the country) (Buira 2003b:232). Thus, conditionality and access to Fund resources has evolved away from a predictable rules-based system, in which required policies are explicit at the outset and formally approved by the Fund's governing body, to one that is heavily dependent on discretion.

Mission Creep in Sociological Perspective

In the previous section, we saw evidence of significant changes in the IMF's activities over time, the most dramatic of which occurred during the past two decades. The emphasis on growth, the explosive increase in the number of lending conditions, and the move away from rules toward Management and Staff discretion are well-documented trends, the seriousness of which has been acknowledged by former as well as present IMF staff members (cf. Gold 1996, Polak 1998, IMF 2001, 2002a, 2002b). Indeed, it has been to address widespread concerns over excess conditionality (known to the outside world as mission creep) that the Fund published a new set of *Guidelines on Conditionality* in 2002.

To successfully address the problem of mission creep, however, it is important to begin with a serious analysis of its causes. For sociologists of organizations, "mission creep" in international financial institutions is only a single instance of a commonly-observed phenomenon, in which an organization's original goals are "displaced" over time (cf. Selznick 1949; Zald and Denton 1963; Messinger 1955; Gouldner 1954; Barnett and Finnemore 1999). There are a number of dynamics commonly observed in complex organizations that cause organizational missions to evolve in this way. In the interests of simplifying a large sociological literature, we distinguish between two types of dynamics implicated in unexpected organizational change. The first dynamic is organizations' perennial need to adapt to pressures in their environments. The second dynamic is the internal logic of organizations, which change their practices to meet the challenge of changing problems.

When organizations depend on more powerful organizations for resources, they become subject to control by these organizations, and behave accordingly (cf. Michels 1959[1915]; Pfeffer and Salancik 1977). In the case of the IMF, the controlling organization has clearly always been the government of the United States. The Fund's dependence on the United States has historically been manifested in two different sorts of control: that exercised through the institutional mechanism of the Executive Board, and that exercised through non-institutional channels (the so-called "Treasury effect"). Since the IMF's founding, voting has been weighted according to capital contribution using an arcane and arbitrary formula that has not been widely publicized (Buira 2003b:227-28). Although the U.S. has never had a majority of Board votes, its influence has always been magnified by its power to veto lending and other proposals, as well as the tendency of representatives from other industrialized countries to follow the U.S. lead in voting. The U.S. has always been the Fund's largest contributor, and the largest lender to the IMF through the General Arrangements to Borrow. Most importantly, as the former Director of the IMF's Legal Department observed, "The United States, as the issuer of the currency in greatest demand, exercised an irresistible influence on the interpretation of the Articles and the practice of the IMF" (Gold 1996:349).

The influence of the U.S. on the early development of the IMF is probably the best-known and best-documented episode in the organization's history (cf. Block 1977, Dell 1981, Dam 1982, Southard 1979, Mikesell 1994, Boughton 2002). Because of U.S. opposition, the IMF was endowed with less than a quarter of the resources Keynes had considered necessary for an international lender of last resort (Boughton 2002:17). Thus handicapped at the outset, the Fund's resources (measured both as a percentage of world GDP and as percentage of world imports) continued to decline over time (Buira 2003a:235). The U.S. also was instrumental in developing the principle of conditionality: during the Fund's first decades, the U.S. used its veto to prevent loans until the Fund adopted a policy of requiring substantive guarantees from debtor nations (Horsefield and Lovasy 1969: 398; Southard 1979: 16-18; James 1996: 81).

However, whereas the United States was instrumental in promoting the principle of conditional lending, the *practice* of conditionality evolved more gradually, and was not solidified into a set of clearly-defined performance criteria until the mid-to-late 1950s. Although the intellectual antecedents of the Fund approach are well-known (cf. Alexander 1952; Polak 1957; De Vries 1987), we would like to suggest that there was also a pragmatic logic at work: namely, that of a young organization attempting to carve out a "market niche" so as to guarantee its own survival (Brint and Karabel 1991). Forbidden by the U.S. from making loans to Marshall Plan recipients, the Fund was simultaneously blocked by the U.S. government from making loans without defining a strict policy of conditionality. The result was that drawings on the Fund's resources fell to zero in 1950 (Block 1997: 111). In large measure because of U.S. pressures, the Fund began to specialize in lending to developing nations, particularly in Latin America (Finch 1997: 51-2). These nations suffered from chronic and related problems of inflation, balance-of-payments deficits, and complex systems of currency controls.

From the perspective of a young organization attempting to justify its existence, the application of fiscal and monetary conditionality to these countries had a number of advantages.

For one thing, it provided the Fund with a role that was wholeheartedly supported by its most powerful client. Furthermore, financial programming allowed for the setting of concrete, attainable goals with straightforward means of measurement--the current account deficit, reserve levels, the price level, the fiscal deficit, and so on. It had a well-known and well-understood historical precedent, since coalitions of private bankers, central banks, and the League of Nations had imposed similar fiscal and monetary conditions during the era of the gold standard (Gisselquist 1981: 53, 206; Clarke 1967: 41-2; Eichengreen 1996:25-8). Finally, it assumed the form of a set of routine, categorical, and universal rules of the sort favored by bureaucracies—and inevitably bemoaned by their clients, who would prefer more personal treatment (Weber 1946, Barnett and Finnemore 1999).

These fiscal and monetary conditions remain at the core of IMF lending arrangements, and continue to be a primary target of critics of the Fund, which often focus on the damage that fiscal and monetary austerity does to economic growth (cf. Barro and Lee 2002; Stone 2002). But today's Fund does a good deal more than this: it serves an ally of private creditors and as a promoter of market-oriented structural reforms. The alliance with private creditors is relatively easy to explain as a straightforward case of organizations joining in a mutually-beneficial symbiosis (Scott 1981:207). As the Fund's resources as a proportion of world GDP declined, "most members in need of balance of payments financing [found] it necessary to negotiate loans by banks, coupled with the restructuring of existing debt, to take care of the gap left unfilled by the IMF and other official agencies" (Gold 1988:1130). The symbiotic relationship that developed over the decades benefited both Fund and creditors: the Fund because it gained both assistance in balance-of-payments lending, and enhanced authority over borrowing governments; and the creditors because the IMF helped organize their claims and insure them against default.

In short, it was realized "that the IMF and the banks had common interests and that cooperation between them was essential to defend those interests" (Gold 1988: 1134).

The explanation for the rise and expansion of structural conditionality is more elusive, both because there are a number of likely causes, and because the internal discussions of Management and Staff are not available for public scrutiny. Nevertheless, three pieces of circumstantial evidence stand out as relevant. First, IMF resources declined significantly—from 14 percent of world imports in 1970 to 6 percent in 1990, to under 3 percent today (Buira 2003a: 235). This created an organizational need to "ration" resources in some way through more stringent conditions. Second, in the 1970s and 1980s, there was an important intellectual shift among economists and policymakers, which IMF historian James Boughton (2001) refers to as the "Silent Revolution." The emergent neoliberal consensus rejected the view that there was a tradeoff between growth and price stability—as the Phillips curve had supposed—but rather endorsed the view that price stability was actually a *precondition* to growth. Economics has moved well beyond this belief.[9] This "silent" intellectual revolution meant that the Fund's rediscovery of growth as an organizational purpose would no longer appear to be in contradiction to the Fund's prescription of fiscal and monetary austerity (Boughton 2001:614).

The third circumstance was the coming to office of the Reagan and Thatcher Administrations, which made no secret of their desire to promote free-market reforms and opening the developing world to foreign trade and investment. In 1985, Treasury Secretary Baker called on the Bank and the Fund to help liberalize market institutions and strengthen the private sector. The Fund supported the Baker initiative, which included provisions for structural

[9] While high levels of inflation are harmful to growth, several studies, including Fund studies, have concluded that inflation rates below 40 percent are not (See Bruno and Easterly 1996, Fischer 1993, Stiglitz 1998, Khan 2002). Ackerlof, Dickens and Perry (1996) find that low levels of inflation may actually improve economic performance relative to what it would have been if it had been eliminated altogether.

conditionality and stronger collaboration between the Fund and the Bank (Boughton 2001:419-23).[10] The neoliberal emphasis in U.S. policy continued with the Clinton administration: under the leadership of Treasury Secretary Robert E. Rubin, the U.S. pressured the Fund to amend the Articles of Agreement so that it could require borrowing governments to remove capital controls (Kristof and Sanger 1999).

Which of these factors has played the greatest role in shaping the direction of Fund conditionality over the past two decades? Without downplaying the importance of the decline in resources and the "intellectual revolution" in economics, we conclude that the third factor has been most salient: external pressures from the Fund's key constituent, the U.S. Treasury, pushed the Fund to assume jurisdiction over such an extraordinary variety of policy areas.[11] Thus, we believe that the dominant trend in recent years is best described as "mission push."

One piece of evidence that supports this conclusion is the growing disjuncture between the Fund's prescriptions and the views of academic economists. In the 1980s, U.S. objectives and the views of mainstream economists were more difficult to disentangle. Today, however, while the Fund continues to promote "Washington Consensus"-style liberalizations, economists are subjecting the "Washington Consensus" to extensive critique and revision (Naím 1999; Stiglitz 1998, 2002; Williamson 2003). Thus, some of the Fund's current prescriptions contain an ideological legacy of the intellectual environment of two decades ago. Indeed, the head of the Fund's Research Department recently conceded that the liberalization of capital movements does not contribute to higher growth, and that market-friendly capital controls have been effective in

[10] Over the course of the 1980s, Fund Staff brought numerous proposals for the introduction of structural conditionality to the Executive Board; while resistance to these proposals was initially fierce (particularly among developing-country representatives), over time opposition was eroded (Boughton 2001: 422-3, 588, 589-90, 610, 613-14).

[11] Recently, the Director of the IMF's External Relations Department responded to concerns about "creeping conditionality" by noting that "'we as an institution are being asked to do much, much more' in the economic, social, and political arenas" ("Book Forum" 2/16/04:36).

preventing crises in a number of countries (*see* Prasad et al. 2003). This suggests that the Fund's ongoing promotion of capital-account liberalization may derive more from outside pressures than from intellectual conviction.

Another reason to consider "mission push" to be the predominant factor is that recent additions to conditionality have been so far removed from the Fund's purposes and organizational capacity. The fight against money laundering and global terrorism, while laudable, are activities that have more to do with police and security co-operation than with the purposes of the Fund in the fields of economic growth and balance-of-payments stability. Moreover, there is little reason to believe that Fund Staff possess expertise concerning such matters.[12]

"Mission push," in turn, helps explain the recent trend toward discretional conditionality. Whereas during its first decades, the Fund developed a standardized set of fiscal and monetary performance criteria, for at least a decade, it has been rapidly moving in the opposite direction. In any lending arrangement today, the performance criteria formally approved by the Executive Board are only the tip of the iceberg; what may lie beneath is a complex set of prior actions, structural benchmarks, reviews, and waivers, the full significance of which may be known only to a few Executive Directors, Management and Staff. Borrowing governments no longer possess a secure sense of the actions that will prevent their disbursements from being interrupted: there are no longer clear rules. Management and Staff possess a wide degree of discretion in deciding whether lending arrangements will be interrupted, and what sorts of conditions must be met.

Such a move from rules to discretion is a dynamic commonly observed in organizations facing challenging circumstances. Bureaucratic organizations ordinarily become more rule-

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12 However, including these items in IMF lending arrangements fits remarkably well with U.S. geopolitical objectives since September 11, 2001.

based and routinized over time (Weber 1947). But where tasks become unusually complex and environments unusually uncertain, formally-specified rules may not be flexible enough to deal with contingencies. In these cases, tasks are increasingly removed from the restrictions of automatic rules, and delegated instead to experts (or professionals) possessing high levels of discretion (Scott 1981:254). Where such organizations are formally accountable to representative bodies, this may lead to a shift in authority away from representative authorities and toward technocratic experts, according to a process Michels termed the "iron law of oligarchy" (Michels 1959[1911]).

It would be difficult to deny that today the Fund's job is both more uncertain and more complex today than it was during the postwar period. Uncertainty has resulted in part from the decrease in the predictability of key macroeconomic variables. In the more stable 1950s and 60s, it was easier to foresee the macroeconomic environment over the coming year, and hence to determine and meet a circumscribed set of performance criteria set at the outset of a lending arrangement.[13] Today, with the rise in volatility of exchange rates, interest rates, and short-term capital flows, it is more likely that performance criteria will have to be modified (IMF 2002a:36).[14]

More importantly, both uncertainty and complexity have been heightened by the recent and unprecedented proliferation of lending conditions. Fiscal and monetary performance criteria are relatively easy to measure and enforce, and hence relatively congenial to being formally specified at the outset of a lending arrangement. Structural conditions, in contrast, are difficult to enforce, "due to the vagaries of the political process involved in bringing them to completion"

[13] However, even during this more stable period, it was impossible to predict crop failures in agricultural economies.

[14] It is worth noting that the Fund is partly responsible for this more volatile macroeconomic environment, since it has been promoting capital account liberalization without providing the necessary protections (i.e., automatic lending) that the resulting risks demand.

(IMF 2002a:25). In other words, they have to go through Congress or Parliament; what ultimately gets approved may be a compromise that does not fully meet an initially-specified performance criterion. Structural reforms are also difficult to break down into manageable, measurable targets (Gold 1996:496). For example, whereas it is relatively easy for IMF staff to set a quarterly goal for a fiscal deficit, and to check whether a government has complied, how can the Fund measure whether a government has gone a quarter of the way toward privatizing a state-owned firm? The logical solution to this organizational dilemma has been to make lending arrangements less dependent on formally-specified rules, and to enforce them at the discretion of Management and Staff. Unfortunately, this move to technocratic discretion raises serious questions of transparency and accountability.

Some Implications of Recent Trends

Some observers might suggest that the proliferation of IMF lending conditions is the lesser of two evils—the greater being the failure of governments to implement much-needed reforms. However, we will mention four reasons to believe that mission creep creates more serious problems than it solves. The first is that mission creep greatly increases borrowing governments' uncertainty as to whether they may continue to draw on Fund resources. The proliferation of performance criteria, benchmarks, and prior actions in such diverse fields as governance, privatization, legal reforms, anti-corruption efforts, money laundering and the financing of terrorism and so on, has decreased the probability that governments will be able to keep all or even most of their original commitments. It then is up to Management and Staff to decide which conditions are important and which are not. In short, under the current system, it is hard for governments to know where they stand—and for investors to know what the outcome will be. The resulting lending arrangements, in the language of the Articles of Agreement, do not "give confidence to members."

The second reason is that in ambiguous bargaining situations where one party has discretionary power, political considerations often influence organizational goals.[15] Since mid-1990s, the Fund has abandoned lending limits related to quota size, allowing for larger support packages "in exceptional circumstances" (IMF 1999). In practice, such "exceptions" have been made for significant emerging-market economies in which foreign portfolio investors have a large stake. For example, Turkey's maximum access in excess of 1700% of quota in 2003; Brazil's was 628% that same year (IMF 2003c). The 1997 Standby Arrangement with South Korea was widely criticized for including bilateral trade conditions tailored to benefit American and Japanese companies (Pollack 1997). The promotion of geopolitical interests is also facilitated by discretion. It is widely-understood among Executive Directors and borrowing governments that strategically placed nations such as Turkey and Afghanistan are much more likely to receive sympathetic consideration than geopolitically less important nations.[16]

The third reason to worry about mission creep is that the Fund's expanded mission is largely based on the questionable assumption that Fund programs are an effective means to economic growth. Unlike fiscal, monetary, and liberalizing conditions, indicators of economic growth are not included as benchmarks or performance criteria. Rather, IMF programs implicitly assume that lowering inflation and implementing free-market reforms are necessary and sufficient preconditions for economic growth. However, recently a number of studies, from

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[15] This is spite of the fact that Article XII, Section 4(c) directs Management and Staff to "respect the international character [of the Fund's activities] and [to] refrain from all attempts to influence any of the staff in the discharge of these functions."

[16] Although a nation such as Argentina may have little geopolitical importance, its status as a major debtor to the Fund (owing about $17 billion) has recently allowed it to bargain for more flexible conditions; the Fund is thus able to save itself the embarrassment of default and large non-performing assets.

both inside and outside the Fund, have recognized that while IMF programs improve the balance of payments, and often reduce inflation, they do not increase growth rates, and indeed often have a contractionary effect (Stone 2002; Barro and Lee 2002; Selowsky et al. 2003). This is not to be marveled at, since Fund programs continue to require sharp fiscal and monetary cutbacks and the prioritization of debt repayment.

The fourth problem with mission creep is a twofold problem of accountability. First, because of the rise of discretional conditionality, the Fund's accountability to its own governing body—the Executive Board—has declined significantly. The developing countries that make up the Fund's client base have always had very little power and representation on the Executive Board, due to the Fund's weighted voting structure and their need not to antagonize staff and Management to be able to secure flexibility or leniency for their countries. But because the Board has become less relevant, their influence has been further diminished. Second, the Fund lacks accountability to national electorates at a time when the Fund both claims jurisdiction over much wider range of national policies, and possesses greater leverage to implement them.

In response to concerns over the proliferation of conditionality and the high rate of program failure, the Fund adopted a new set of *Guidelines on Conditionality* in 2002, which recommend the limited use of prior actions and program reviews, and the scaling-down of performance criteria. However, there is little reason to expect that these will reverse or even stem the trend of mission creep. The 1979 *Guidelines,* which put considerably greater limits on conditionality than the current ones, were unsuccessful in checking the explosive growth of conditions in the 1980s (Polak 1991). History seems to be repeating itself. The 2003 Standby Arrangement with Turkey is associated with 38 prior actions and 42 structural benchmarks, most of them oriented toward an ambitious program of free-market reforms (IMF 2003).

Conclusion

The IMF was originally founded for the purpose of helping countries weather balance-of-payments crises through providing them with temporary financing. But the Fund's tasks steadily expanded over time. By the early 1960s, these tasks included the crusade against inflation and fiscal irresponsibility, a goal that could be seen as directly related to balance-of-payments objectives; by the early 1980s, they also included helping avoid defaults and collecting the debts of developing countries; today, they encompass such diverse items as free-market reforms, institution-building, and measures to combat terrorism. More than any other development in the Fund's history, this latest phase represents a revolutionary shift. It has been associated with a redefinition of the Fund's mission, a dramatic rise in the number of lending conditions, and a significant increase in the discretional power of Management and Staff. The absence of rules appears to have resulted in part from the expansion of the Fund's mandate—which, in turn, seems to have resulted from heightened pressures from the U.S. Treasury. The diminished importance of rules makes it easier for the Fund's most powerful clients to push for a further expansion of its mission, and more exceptions to the rules. Thus, "mission push" and discretion are mutually reinforcing.

For Michels, such developments were inevitable liabilities of public interest organizations. To stem the tide of mission creep and technocratization, he recommended adopting more open communication and implementing broader systems of participation. We are similarly led to the conclusion that it is only through increasing the Fund's transparency, and beginning to address issues of accountability, that the problems of mission creep can be addressed. Two separate levels of reform would be required. First, lending conditions would have to be scaled back to include only items that can be measured or evaluated and approved in an objective manner. Diminishing technocratic discretion in favor of formal, bureaucratic rules would contribute to making lending policies truly transparent. Second, there would have to be a re-working of the Fund's system of formal governance, such that the Fund's stakeholders could have a greater say in the Fund's policies. This would require an extensive revision of the voting structure of the Executive Board, which currently gives the U.S. veto power, and developing countries very little say (*see* Woods 2001; Buira 2001, 2003b).

Such calls for enhanced transparency and accountability are nothing new; in fact, they have become relatively standard recommendations among the Fund's most prominent critics and would-be reformers (cf. International Financial Institution Advisory Commission 1998; Stiglitz 2002). The fact that there has thus far been no move to follow these recommendations attests to the powerful vested interests and forces that contributed to pushing the Fund's mission in the first place.

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