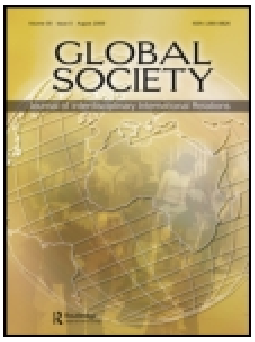

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The IMF, Neoliberalism and Hegemony

JULIE L. MUELLER

This article examines the role of the International Monetary Fund (IMF) in supporting the current hegemonic forces in the global economy. It challenges the current rational choice approach to understanding the Fund in mainstream journals as being too narrow in scope and unambitious in its critique of the Fund. I pose an alternative means of critique that assesses the Fund from a historical materialist perspective and examine the Fund's function in promoting hegemonic norms and co-opting elites in the developing world. This type of critique has been absent in recent scholarship and must be the focus of creating meaningful change within the Fund.

The 2008 global financial crisis has brought to the fore both the limitations of neoliberal economic policy and the role of the International Monetary Fund (IMF) in the global economy. This article examines the role of the IMF in supporting the hegemonic order based on neoliberalism. It examines how the dominant social class has shifted its ideology over the life of the Fund, and how Fund policy has similarly changed to accommodate its needs. In particular, globalisation has led to the emergence of a new class of transnational economic actors whose interests are served by neoliberal policy and by the opening of new economies to investment, and international organisations like the IMF facilitate this. This article challenges the current trends in political economic research on the Fund which are positive in nature and instead proposes a historical economic analysis that provides a context for understanding how and why the IMF operates the way it does. Positivism assumes that empirical theory must be based on quantitative data. However, data are not always accurate or unbiased.[1] Critical approaches posit that data are not the only form of knowledge, as not all phenomena in the political world can be observed quantitatively. Neo-Gramscian analysis, based on a close reading of history and an understanding of power relations, helps elucidate how the patterns of production have shifted over time and how the state and world system have reinforced hegemony. Such analysis can help illuminate how these factors have shaped policy in the IMF.

Antonio Gramsci was intensely interested in the issue of power—who wielded it and how—as he observed the hegemonic status of the bourgeoisie in Italy in the 1920s and sought to organise a socialist counter-hegemonic force. Gramsci knew that it was not possible to understand the political economy of a state without

1. See Ricci's classic critique of positivism in political science in David M. Ricci, *The Tragedy of Political Science: Politics, Scholarship, and Democracy* (New Haven, CT: Yale University Press, 1984).

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understanding both the political institutions of the state and the institutions of civil society and putting them in their historical context. Gramsci viewed the state in a more expansive way than his predecessors. He saw it as comprised of both the administrative, executive and coercive structures normally associated with the state *and* the structures of civil society.[2] A social group must control both to control the state. In terms of the current hegemonic system, this paper explores how international organisations have played the role of a bridge between the state and institutions of civil society in disseminating economic beliefs that undergird the international economic system.

Today, one could argue that neoliberalism has taken on a key role in the promotion of the transnational hegemonic class. It promotes norms like free trade and the privatisation of assets, over competing ideas such as nationalism and collectivism. However, there are moral, as well as economic, implications to this trend. One cannot deny that certain social classes benefit from such policies while others suffer. Neoliberalism deems inequality not only acceptable but also necessary for the system to function, and this value is reinforced through the bilateral policies of states and through international organisations (IOs), such as the IMF.

The main purpose of the IMF, as noted on its website, is to "provide the global public good of financial stability". A stable international financial system is defined as one that provides an environment conducive to trade, and trade is viewed by proponents of neoliberalism as the engine of growth for *all* states. However, stability is too often defined in terms of the interests of the advanced industrial states, often to the detriment of developing states. While the IMF has remained true to its stated mission in promoting policies that achieve these goals, it is important to question the underlying assumptions of this approach to global economic stability. Surprisingly, while much research has been done questioning the effectiveness of IMF policies, little has been written in the field of political economy addressing the Fund's underlying assumptions and how these came to dominate Fund policy making. Also, although many authors have been critical of the Fund for its promotion of elite interests, there is little analysis of the cleavages within this class and the role the Fund plays in supporting one particular segment of the economic elite. As arguably the most powerful international economic organisation, the Fund should be examined from a more critical perspective.

While there has been a resurgence of interest in the Fund in the international political economy (IPE) literature in the past decade, the nature of this work is to question outcomes, rather than presuppositions and definitions. This is in part due to the theoretical and operational approach these researchers take, in the positivist vein. Robert Cox notes that theory often reflects the historic period in which it is being crafted.[3] Nowhere is this clearer than in the field of international relations (IR). For example, the decade of the 1990s was a period of radical change in political forms, state–society relations and economic relations on a global scale. The academic work in IR reflected this sense of change as the work in non-mainstream perspectives flourished. The prefix "post-" was added

2. Robert W. Cox, "Gramsci, Hegemony and International Relations: An Essay in Method", *Millennium*, Vol. 12, No. 2 (1983).

3. *Ibid*.

to traditional forms of theory, such as structuralism and modernism, to connote a break from the mainstream, while the prefix "neo-" was added to designate new and improved versions of traditional theories, such as realism and liberalism. The more critical, post-positivist theories, however, failed to significantly impact the main journals in IR. Breuning *et al.* note a shift toward more quantitative research in the top three IR journals since 2000.[4] Correspondingly, a shift also took place in the realm of IR theory that reflected a methodology, rational choice, grounded in neorealism. This shift is reflected in the IPE scholarship on the IMF.[5]

The first goal of this article is to critically reflect on current trends in IPE research on the Fund from 2000 to 2009. I argue that most of this research falls into the category that Robert W. Cox labelled as "problem-solving theory". The second goal of this article is to provide a critical assessment of the Fund's role in the global economy as supporter and transmitter of neoliberal norms that uphold US hegemony. While it is not new to claim that the IMF is a tool of Western neoimperialism, this study builds on the work of Richard Peet[6] that examines how the IMF reinforces liberal capitalism and also seeks to address the question of why the rest of the world continues to play along. In addition, little of what has been written "critiquing" the Fund over the past decade seeks to explore its underlying ideology in a way that would provoke true transformation. In fact, recent calls for "reform" of the IMF would actually strengthen its neoliberal character. In the field of IPE, Western scholars have done a generally poor job of providing meaningful research that questions the underlying assumptions guiding IMF policy. In conclusion, I examine some of the recent proposals for reforming the Fund and suggest which might best achieve a transformation in the Fund that will benefit all its members.

The Current State of the Literature

To dissect current trends in research, one must be self-consciously aware of examining both different epistemological approaches and, perhaps more importantly, different ontological perspectives that inform this epistemology.[7] Most research today takes an ontological approach that views states as the most important actors and sees state interests, based on power, as given; it sees the political and

4. Marijke Breuning, Joseph Bredehoft and Eugene Walton, "Promise and Performance: An Evaluation of Journals in International Relations", *International Studies Perspectives*, Vol. 6, No. 4 (2005), p. 455.

5. Robert J. Barro and Jong-Wha Lee, "IMF Programs: Who is Chosen and What are the Effects?", *Journal of Monetary Economics*, Vol. 52 (2005); Graham Bird and Dane Rowlands, "Do IMF Programmes Have a Catalytic Effect on Other International Capital Flows?", *Oxford Development Studies*, Vol. 30, No. 3 (2002); Axel Dreher, "IMF and Economic Growth: The Effects of Programs, Loans, and Compliance with Conditionality", *World Development*, Vol. 34, No. 5 (2006); Axel Dreher and Nathan M. Jensen, "Independent Actor or Agent? An Empirical Analysis of the Impact of U.S. Interests on International Monetary Fund Conditions", *Journal of Law and Economics*, Vol. 50 (2007); Randall W. Stone, "The Political Economy of IMF Lending in Africa", *American Political Science Review*, Vol. 98, No. 4 (2004); James Raymond Vreeland, *The IMF and Economic Development* (New York: Cambridge University Press, 2003).

6. Richard Peet, *Unholy Trinity: The IMF, World Bank and WTO* (New York: Zed Books, 2009).

7. Robert W. Cox, "Towards a Post-hegemonic Conceptualization of World Order: Reflections on the Relevancy of Ibn Khaldun", in James N. Rosenau and Ernst-Otto Czempiel (eds.), *Governance without Government: Order and Change in World Politics* (Cambridge: Cambridge University Press, 1992); Roger Tooze, "Review: The After-shock of the 'Neo': Agendas of IPE and IR", *Review of International Political Economy*, Vol. 3, No. 1 (1996).

economic world as a place where universal, unchanging truths exist, waiting to be elucidated through empirical research. However, an alternative approach sees a world in a constant state of evolution, where social, political and economic relations cannot be assumed to exist, unchanging, in perpetuity. This view leads to an epistemology based on an examination of historical, dialectical processes, seeking to determine the sources of change. These two ontological perspectives, therefore, derive very different means of exploring the processes of global capitalism, the former being more empirical and uncritical and the latter being more historical and critical. This article seeks to take the latter approach to understanding the role of the IMF in the global system and sees the former as incapable of truly understanding the nature and structures of the global economy. It requires new ways of thinking about accepted terms such as "development", "progress" and "success" and critically examining how people in both the developed and the developing world have converged on particular definitions of these terms that benefit the few at the expense of the many. But in attempting to do just this, one can begin to discern formerly undetected patterns that explain what was thought to be unexplainable about how the global economy functions.

The current IPE literature on the IMF in mainstream IR journals and some recent books examines the impact and effectiveness of this institution from a variety of perspectives, but almost all the work published in the past 10 years in these journals shares a methodological approach that is mainly empirical.[8] One particularly disturbing trend in the past decade is the shift increasingly toward quantitative research in some of the most esteemed journals in the field of IR. While "data" can elucidate relationships, especially if they are "robust", the fact remains that much of the body of data we collect as political scientists is suspect. It attempts to attach numbers to information that is not easily quantifiable or that relies on sporadically collected data. Researchers are also generally limited, by time and resources, to using the data that are collected by the very institutions they seek to critique. The recent research from 2000 to 2009 on the IMF in the leading IPE

8. I have excluded IMF Working Papers and Staff Papers from the review of the literature because of their obvious bias in favour of the Fund. The majority of these works are intended to prove that Fund programmes work and to refute the work of independent scholars who attempt to prove the detrimental effects of Fund loans. For example, Timothy Lane and Steven Phillips, *Does IMF Financing Result in Moral Hazard?* (Washington, DC: International Monetary Fund, 2000), seek to refute the view that IMF programmes create moral hazard; George T. Abed and Hamid R. Davoodi, *Corruption, Structural Reforms, and Economic Performance in the Transition Economies* (Washington, DC: International Monetary Fund, 2000), seek to show that structural reforms decrease the incidence of corruption; and Ales Bulir and Soojin Moon, *Do IMF-supported Programs Help Make Fiscal Adjustment More Durable?* (Washington, DC: International Monetary Fund, 2003), attempt to show a correlation between Fund conditionality and fiscal adjustment. All make initial assumptions about the validity of IMF programmes. Likewise, in a survey of the literature on the effectiveness of Fund programmes, Nadeem Ul Haque and Mohsin S. Khan, "Do IMF Supported Programs Work? A Survey of the Cross-country Empirical Evidence", in Mohsin S. Khan, Saleh M. Nsouli and Chorng-Huey Wong (eds.), *Macroeconomic Management: Programs and Policies* (Washington, DC: International Monetary Fund, 2002), note that there is consensus that on balance they do work; however, other scholars looking at the same literature have come to very different conclusions, such as Martin C. Steinwand and Randall W. Stone, "The International Monetary Fund: A Review of the Recent Evidence", *Review of International Organizations*, Vol. 3 (2008). But perhaps none are quite as blatant as Allan Drazen, "Conditionality and Ownership in IMF Lending: A Political Economy Approach", *IMF Staff Papers*, Vol. 49 (2002), who begins with the assumption that structural reform is in a country's best interest and then asks the question of why the Fund then needs to insist on conditionality if this is the case. Instead, I have only included works by independent scholars from the years 2000 to 2009.

journals is a case in point.[9] Researchers writing in mainstream journals such as *International Organization*, the *Journal of Development Economics*, *International Studies Quarterly* and *World Development* are asking important and interesting questions about this institution and are generating data to support hypotheses, ostensibly from a "neutral" position. However, without putting these data into some kind of context and looking at the Fund with a critical eye, these researchers are telling only part of the story.

Recent scholarly works on the IMF in the field of IPE fall into several general categories. One grouping in the literature simply seeks to determine whether or not IMF programmes have been "successful".[10] These studies each define success somewhat differently, but all seem to rely to some extent on the growth of GNP as a measure of success. Overwhelmingly they find that IMF programmes do not increase income in developing countries, especially in the long term or for the poorest segments of society. However, this is contradicted by the Fund's own research, which shows that they *do* create growth.[11]

Another category of articles seeks to examine why IMF programmes do not "succeed".[12] They take as a given the previous literature that has already determined that they do not, and they focus on specific internal or external factors to explain this lack of growth. Bird *et al.* conclude that countries are likely to get multiple loans if they are in a worse financial position and have a weaker structure, despite not adhering to required conditions.[13] Stone concludes that IMF conditions are not followed in African countries, and that there are no consequences for this, because of interference by major donors, who continue to support loans in countries that are in their own foreign policy interests.[14] However, neither article questions the validity of IMF conditions in the first place. On the whole, these studies put little responsibility on the Fund or fail to question policy followed by the Fund. They conclude that countries are too poor, began from too bad a position, or are too structurally unsound to take advantage of better policies—factors that are beyond the Fund's control.

Some studies even seek to answer the question of why countries continue to enter into agreements with the IMF, given the fact that their track record is poor. Smith and Vreeland conclude that this is due mainly to the interests of

9. This paper is not meant to be an exhaustive review of the recent literature on the IMF. For an excellent review of this type, please see Steinwand and Stone, *op. cit*. Rather, this review is meant to outline the general trends in the literature and provide examples that are illustrative.

10. Barro and Lee, *op. cit*.; Bird and Rowlands, *op. cit*.; Louis Dicks-Mireaux, Mauro Mecagni and Susan Schadler, "Evaluating the Effect of IMF Lending to Low-income Countries", *Journal of Development Economics*, Vol. 61 (2000); William Easterly, "What Did Structural Adjustment Adjust? The Association of Policies and Growth with Repeated IMF and World Bank Adjustment Loans", *Journal of Development Economics*, Vol. 76 (2005); Gopal Garuda, "The Distributional Effects of IMF Programs: A Cross-country Analysis", *World Development*, Vol. 28, No. 6 (2000); Adam Przeworski and James Raymond Vreeland, "The Effect of IMF Programs on Economic Growth", *Journal of Development Economics*, Vol. 62, No. 2 (2000); Vreeland, *op. cit*.

11. Ul Haque and Khan, *op. cit*.

12. Graham Bird, Mumtaz Hussain and Joseph P. Joyce, "Many Happy Returns? Recidivism and the IMF", *Journal of International Money and Finance*, Vol. 23, No. 2 (2004); Garuda, *op. cit*.; Randall W. Stone, *Lending Credibility: The International Monetary Fund and the Post-communist Transition* (Princeton: Princeton University Press, 2002); *idem*, "The Political Economy of IMF Lending in Africa", *op. cit*.

13. ird *et al.*, *op. cit*.

14. tone, "The Political Economy of IMF Lending in Africa", *op. cit*.

leaders in developing countries.[15] Sometimes the IMF becomes a convenient scapegoat for unpopular policy changes that these leaders feel are necessary. The Fund deflects criticism from these leaders. Another reason Vreeland cites is the unequal distribution effect of neoliberal economic policies.[16] The segments of society that have the most to gain from such policies are also those with the political clout to institute them.

I question the real utility of this research, as many of the data gathered require some interpretation or certain assumptions to even generate numbers, but I also question the attempt of researchers to maintain the air of a detached, scientific researcher toward the Fund. Few researchers attempt to untangle the web of cross-border influences that lead to policy failure, as attempts to do this empirically lead to a maze of overly complex formulas that often fail to capture what seems to be apparent, even through casual observation. In addition, these scholars are products of the culture they seek to critique. Their schooling has been steeped in these liberal norms.

In addition, few IPE scholars have attempted to answer the question of why the Fund continues to recommend neoliberal policies that have little record of succeeding and producing growth. One notable exception to this is Jeffrey M. Chwieroth. Chwieroth has attempted to quantify those aspects of the Fund that led it to adopt the policy of capital account liberalisation and then how this policy gained wide acceptance among Fund members.[17] One drawback to these extensive studies is the method Chwieroth uses to categorise economists as neoliberal. Fund employees are labelled and scored based on the graduate programme they attended. While this may be indicative of a particular mode of thought, it is not conclusive. One could argue that simply by virtue of choosing to work at the IMF, economists are displaying a particular bias. The author himself acknowledges that the accuracy of such empiricism is limited, but he does produce data to support what has been commonly understood about Fund economists and their relationship to decision makers in developing countries. However, it is not so much the use of data that makes this research problematic. Gramsci himself used data to demonstrate the increase in worker deaths that could be attributed to capitalism;[18] rather, it is the positivist epistemology that underlies the use of such data.

Most of this research could be described as what Robert Cox labels "problem-solving theory".[19] For Cox, this type of research takes as a given the prevailing power relations within a society and in institutions in that society. It considers a particular problem, which is limited in scope. The strength of this approach is

15. lastair Smith and James Raymond Vreeland, "The Survival of Political Leaders and IMF Programs", in Gustav Ranis and James Raymond Vreeland (eds.), *Globalization and the Nation State: The Impact of the IMF and the World Bank* (New York: Routledge, 2006).

16. reeland, *op. cit*.

17. Jeffrey M. Chwieroth, "Neoliberal Economists and Capital Account Liberalization in Emerging Markets", *International Organization*, Vol. 61, No. 2 (2007); *idem*, "Normative Change from Within: The International Monetary Fund's Approach to Capital Account Liberalization", *International Studies Quarterly*, Vol. 52 (2008); *idem*, "Testing and Measuring the Role of Ideas: The Case of Neoliberalism in the International Monetary Fund", *International Studies Quarterly*, Vol. 51, No. 1 (2007).

18. ntonio Gramsci, *Selections from Political Writings 1910–1920* (New York: International Publishers, 1977), p. 21.

19. Robert W. Cox, "Social Forces, States and World Orders: Beyond International Relations Theory", in Robert O. Keohane (ed.), *Neorealism and its Critics* (New York: Columbia University Press, 1986).

the fact that it has defined parameters and its empirical approach allows one to derive from it generally applicable rules of behaviour.[20] As Smith notes, it is technologically very efficient.[21] However, this approach is not value-free. Rather, it is conservative in its unquestioning acceptance of the prevailing social order. The benefit of the current literature on the IMF is its empirical support for common assumptions and single-case observations about the utility of Fund programmes.

The main drawbacks to this type of approach are its attempt to be ahistorical and its uncritical acceptance of prevailing norms. The reality is that all theoretical perspectives arise within a certain context. Therefore nothing can be studied absent an understanding of its historical context, which is in a constant state of change and revision. While the results of problem-solving theory may give us a snapshot of something at a particular point in time, one must understand that this is of limited utility unless put in context and seen as part of a larger picture. This approach also accords with an "economic" understanding of the world, one which views political acts as objective exercises in value maximisation and sees actors as "rational" in the sense that they make decisions based on a cost–benefit analysis of the potential outcomes. These assumptions arose from a particular historic, geographic, class and gender perspective, and therefore are not value-free.[22]

Attempts to quantify that which is unquantifiable also open up these empirical studies to criticism by Fund supporters. For example, Stone's effort to measure the influence of major donors (the United States, France and Britain) on IMF loan recipients in Africa, as measured through US aid, membership in postcolonial international institutions, and voting profiles in the United Nations, suffers from his attempt to lump together 53 African states, with widely divergent political issues and economic needs.[23] Likewise, Chwieroth's attempts to trace the influence of neoliberalism through the Fund in a systematic, empirical way are also open to question. The fact is that much of what influences the "success" or "failure" of economic policy is unquantifiable. Another problem is that critics are locked into IMF definitions, based in neoliberalism, of what constitutes success.

Also, these studies of the IMF largely fail to consider the ethical implications of IMF policies. While this may be implicit in what the researcher chooses to examine, such as Garuda's study on how IMF programmes affect the poor,[24] still the plight of the poor is connected not to the IMF programmes themselves but to the state of a country's economy before entering into an IMF-sanctioned programme. This approach is also a very static one. It makes certain assumptions that must "hold" in order for their conclusions to be correct; therefore it is unable to account for change in the system. Because it treats actors' interests as given, it does not enquire into how they came about.[25]

20. *Ibid.*, p. 208.

21. Steve Smith, "Singing Our World into Existence: International Relations Theory and September 11", *International Studies Quarterly*, Vol. 48, No. 4 (2004), p. 503.

22. For an excellent overall critique of rational choice theory, see Donald P. Green and Ian Shapiro, *Pathologies of Rational Choice Theory: A Critique of Applications in Political Science* (New Haven, CT: Yale University Press, 1996).

23. Stone, "The Political Economy of IMF Lending in Africa", *op. cit.*

24. Garuda, *op. cit.*

25. Smith, *op. cit.*, p. 503.

Ngaire Woods is one exception to this general trend in the research. Her work addresses governance and transparency within the Fund as well as globalisation and inequality, and her methodology is qualitative, not quantitative.[26] She notes the coalition of larger donor countries, technocrats within the Fund, and technocrats in charge of the economy of developing countries as the rationale for why the Fund (and the World Bank) continue to propose policies with little evidence of success. However, Woods' work and her recommendations for reforming the Fund are careful, based on basic issues of the structural operations of the Fund rather than on a fundamental reassessment of the role of the Fund and its underlying ideology.[27]

A "critical theory" approach, as Cox describes it, would take a very different approach to understanding the IMF. A critical approach takes one step back in examining the underlying assumptions that problem-solving theorists take as given. This approach asks the question of how these policies came to be in the first place and why the Fund continues to recommend policies with a questionable record of "success". Likewise, it examines even our agreed upon norms, such as how the term "success" is defined. It also takes a more historical approach, putting the actions of the Fund and state leaders in their proper context, through examining issues of power, ethics and equality. While this approach suffers from the ability to make concrete, parsimonious conclusions about Fund policy, it does lead "toward the construction of a larger picture of the whole of which the initially contemplated part is just one component, and seeks to understand the process of change in which both parts and whole are involved".[28] While such an approach may not produce "scientific" knowledge, it can guide us in an alternative view of reality that will help put the conclusions of problem-solving theorists into context and make them more useful. Cox also notes that critical theory can point us toward an alternative system of norms, while problem-solving theory can provide tactical advice for sustaining the existing order.[29] Scholars must be aware of whether they seek merely to uphold the current system or to reform it.

Therefore, in order to understand the role of the IMF in the global political economy we must understand the historical development of the Fund, and we must try to understand how the IMF relates to the various power factions within this system. The work of Robert Cox is an excellent starting point; however, it is also helpful to review other critical IPE scholars who are grounded in what has been called a neo-Gramscian perspective. While the focus varies for each, what they have in common is an interest in how power operates in the international realm not only through coercion but also through consent. This theoretical grounding grew out of a desire to critically examine political power relations through the lens of economics. Scholars such as Robert Cox and Stephen Gill rediscovered the work of Antonio Gramsci, which eschewed empirical Marxism

26. Ngaire Woods, "Accountability, Governance and the Reform of the IMF", in David Vine and Christopher L. Gilbert (eds.), *The IMF and its Critics: Reform of Global Financial Architecture* (Cambridge: Cambridge University Press, 2004); *idem*, "The Challenge of Good Governance for the IMF and the World Bank Themselves", *World Development*, Vol. 28, No. 5 (2000); *idem*, *The Globalizers: The IMF, the World Bank and their Borrowers* (Ithaca, NY: Cornell University Press, 2006).

27. Woods, *The Globalizers*, *op. cit*.

28. Cox, "Social Forces, States and World Orders, *op. cit*., p. 209.

29. *Ibid*., p. 210.

as overly deterministic, yet sought to explain how prevailing economic power structures had come about and how they change over time.

Richard Peet has applied this approach to understanding the emergence of the Bretton Woods institutions and their support of American hegemony.[30] In his authoritative study on the topic, Peet argues that the emergence of neoliberalism served the interests of the privileged few, while creating humanitarian disasters in the developing world. He argues persuasively that the bias among economists and policy makers in favour of neoliberalism dictates the agenda for the Fund. Contributing to this process that Peet describes is the convergence of thinking among leaders in the developing world, also, where neoliberal policies continue to be promoted by finance ministers and political leaders as the key to economic prosperity, despite evidence to the contrary.

The Role of the IMF in the Global Economic System

While the stated goal of the Fund is to bring economic stability and growth, and even peace, democracy and security, ironically, IMF programmes have brought few of these benefits to the majority of the people in the countries they advise today. This prompts us to question whose interests IMF policies serve. Surely one interest is serving the economic and political priorities of the countries with the greatest voting power within the Fund. However, the IMF also protects the interests of a particular transnational class that benefits the most from a global financial system free of restraints, a norm disseminated through Fund policy. In this sense, it is more appropriate to view the system today as dominated by a hegemonic class, rather than a particular state and reinforced by intellectuals from this class. It is supported by the coercive power of a dominant state, but it is not dependent on it. This hegemony does not yet have global reach. Many states on the periphery are still largely excluded from it. However, a growing trend within developing states is the emergence of such a class of elites who benefit from the forces of globalisation, have financial connections to the West, and may have even been educated in the West. In addition, the ruling class's ideology extends to include international organisations as players in the global civil society that reinforces hegemonic norms, much the way domestic institutions reinforce it on the state level. Like other institutions, IOs are tools used to support those in power. Robert Cox notes that IOs not only reinforce hegemonic norms but also are often products of that hegemony themselves.[31]

To understand how the IMF is a product of US hegemony, it is important first to understand how the Gramscian concept of hegemony varies from the traditional usage of this term in the IR literature. Most scholars today when using this term mean "dominance", which implies coercion. In the 1970s, economist Charles Kindleberger appropriated the term to describe what he saw as the missing component of the global economic system of the 1920s and 1930s. He was reacting to an international system characterised by mercantilism and beggar-thy-neighbour policies—a system in need of leadership. Kindleberger argued that the maintenance of free trade required what he calls a "benevolent despot" to provide certain public goods, such as openness and stability in the international economic

30. Peet, *op. cit.*
31. Cox, "Gramsci, Hegemony and International Relations", *op. cit.*, p. 172.

system, because these goods were unlikely to be provided unless there was one state with enough interest in the particular good to be willing to bear the cost of providing it.[32] For Kindleberger, being a hegemon required leadership, and he defined leadership as "setting standards of conduct, seeking to get other states to observe them, and, especially, assuming a disproportionate share of the burden of defending the system itself in a crisis".[33] For example, first Britain then the United States acted as the hegemon for the international trading system, ensuring that the system worked smoothly. This theory rests on two conclusions: first, the presence of a dominant actor will lead to the provision of a collective good, such as a stable regime of international trade; and second, although the dominant leader benefits from this situation, smaller states gain even more.[34]

Kindleberger's use of the term hegemon transferred easily to the field of IR, where it was utilised in hegemonic stability theory (HST). HST claims that the presence of a single, strongly dominant actor in international politics leads to collectively desirable outcomes for *all* states in the international system.[35] Conversely, the absence of a hegemon is associated with disorder in the world system and undesirable outcomes for individual states. Therefore, a system in *imbalance* is more "stable" than that of a balance between two or more states, even if goods are not distributed evenly. In this sense, the focus is on relations between the larger powers in relation to one another. HST also makes certain questionable assumptions about the need for a dominant power to enforce co-operation in the international realm.[36]

In the 1980s, neorealists and neoliberals both used the term "hegemon" to describe the role of the United States in the global economy since 1945.[37] For both, this term had positive connotations because of the relative peace that prevailed among the major powers. Dependency theorists and world-systems theorists, on the other hand, focused on the plight of the developing world and saw the term hegemon in a more pejorative way.[38] However, all used the term to connote dominance on the part of the United States. It was not until this past decade that the notion of a superpower that could lead by persuasion, as well as coercion, was popularised by Joseph Nye as "soft power", a term which has even made its way

32. Charles P. Kindleberger, *The World in Depression 1929–1939* (Berkeley: University of California Press, 1973).

33. John S. Odell, *U.S. International Monetary Policy: Markets, Power, and Ideas as Sources of Change* (Princeton, NJ: Princeton University Press, 1982), p. 35.

34. Joanne Gowa, "Hegemons, IOs, and Markets: The Case of the Substitution Account", *International Organization*, Vol. 38, No. 4 (1984); Robert O. Keohane, "The Theory of Hegemonic Stability and Changes in International Economic Regimes, 1967–1977", in Ole R. Holsti, Randolph M. Siverson and Alexander L. George (eds.), *Change in the International System* (Boulder, CO: Westview Press, 1980); Duncan Snidal, "The Limits of Hegemonic Stability Theory", *International Organization*, Vol. 39, No. 4 (1985).

35. Keohane, "The Theory of Hegemonic Stability", *op. cit*.

36. Snidal, *op. cit*.

37. Robert Gilpin, *The Political Economy of International Relations* (Princeton, NJ: Princeton University Press, 1987); Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton, NJ: Princeton University Press, 1984).

38. Fernando Henrique Cardoso and Enzo Faletto, *Dependency and Development in Latin America* (Los Angeles: University of California Press, 1979); Immanuel Wallerstein, "The Three Instances of Hegemony in the History of the Capitalist World-economy", in Gerhard Linski (ed.), *Current Issues and Research in Macrosociology* (Leiden: E.J. Brill, 1984).

into policy-making circles in the US State Department. Soft power, which Nye defines as wielding power through attraction rather than compulsion, is actually very similar to Gramsci's notion of hegemony.[39]

Gramsci observed that hegemony contains elements of both coercion and consent. It is characterised by control over the private sphere, which reinforces control in the public sphere, and authority based on "intellectual and moral leadership" rather than pure domination.[40] It refers to the prominence of a particular social group, or class, in all aspects of civil society as well as state institutions. Gramsci believed civil society was comprised of those institutions that reinforce and create the values and beliefs that ensure the political and cultural hegemony of the ruling class.[41] These include the Church, the education system, the press and "all the institutions which helped to create in people certain modes of behavior and expectations consistent with the hegemonic social order".[42] Translating this to a global civil society, one can see how institutions such as the IMF, which provide governance in the international realm, also serve to create and maintain particular norms.

International organisations are an important cog in the process of creating and sustaining hegemony because they embody the universal norms of a world hegemon. Like the institutions of civil society, they are often created and controlled by the very class that seeks to maintain its power and prevent challenges to their position. Based on Gramsci's understanding of hegemony, Cox notes five features of IOs that enable them to serve this role:

> (1) they embody the rules which facilitate the expansion of hegemonic world orders; (2) they are themselves the product of the hegemonic world order; (3) they ideologically legitimate the norms of the world order; (4) they co-opt the elites from peripheral countries and (5) they absorb counter-hegemonic ideas.[43]

In the following sections I detail how each of these functions that Cox outlines is derived from the work of Gramsci and how the IMF reflects this function.

The IMF as the Product of a Hegemonic World Order

Gramsci spoke of strategies for leaders to acquire power, and he saw the "new prince" as a collective entity, such as a political party. Parties, he noted, represented a particular social group with consent and assistance of allied groups.[44] In the same way, the Bretton Woods institutions represented the collective interests of their founding states.

As the Second World War was drawing to a close, the victors were negotiating what the post-war monetary system would look like. The goal at Bretton Woods was to establish a system that would balance freedom and control; freedom for

39. Joseph S. Nye, *Soft Power: The Means to Success in World Politics* (New York: Public Affairs, 2004).
40. Antonio Gramsci, *Selections from the Prison Notebooks* (New York: International Publishers, 1971), p. 57.
41. *Ibid*.
42. Cox, "Gramsci, Hegemony and International Relations", *op. cit*., p. 164.
43. *Ibid*., p. 172.
44. Gramsci, *Selections from the Prison Notebooks*, *op. cit*., p. 148.

states to operate within the international economy and control over the system in order to create predictability in dealing with trading partners. The trend in economic analysis, both in the policy-making and academic worlds, at the end of the Second World War was in favour of a managed system based on multilateralism and international financial co-operation. Fixed exchange rates based on a gold standard were seen as too rigid, while freely floating rates were associated with the nationalism and isolationism that were so disastrous between the wars.[45] The lessons of the interwar period demonstrated that a lack of co-operation on monetary and trade issues hurt all states. Likewise, national societies were increasingly sensitive to the political repercussions of international economic crises. Stability, it was believed, could be achieved only through the intervention of some governance institution and maintained through the leadership of a dominant power. The international community, under the leadership of the United States, set up international institutions to support a complex global economy. Part of this new global structure was the monetary regime embodied in the IMF.

The principles upon which the monetary regime was based were derived from the beliefs of its chief architects, the United States, which favoured a liberal approach, and Great Britain, which favoured Keynesianism. One underlying fact agreed to by its creators was that unregulated exchange rates in the 1920s and 1930s led to disastrous beggar-thy-neighbour policies. Another strong conviction was that unlimited access to financing would not promote long-term policies of stability. These principles led to the dual roles of the IMF as the overseer of exchange rates and close observer of balance of payments. The norms of the IMF regime were clearly spelled out in the Fund's Articles of Agreement. They included stability, growth, multilateralism, and non-interference in domestic policy. The rules of the regime regarding exchange rates specified that members could move their rates only within certain prescribed limits from the peg and any changes were subject to IMF approval:

> The most important aspect of the Bretton Woods Agreements was the decision of the major countries to follow a basic course of multilateralism, liberal economic policies and international cooperation (albeit with many exceptions), rather than the alternative of heavy emphasis on bilateralism, trade restrictions, and go-it-along nationalism.[46]

In addition, there was a strong belief that the proper focus of the IMF should be on maintaining the economic health of the industrialised countries, with the assumption that this would benefit all states in the long run. There was very little concern or interest on the part of policy makers for the needs of the developing world.

To a large extent the shape of the regime reflected the individual concerns and theoretical persuasions of the US policy makers.[47] In fact, the formation of the World Bank and IMF were important in "locking countries into a U.S.-centered

45. Thomas D. Willett, *Floating Exchange Rates and International Monetary Reform* (Washington, DC: American Enterprise Institute, 1977), pp. 7–11.

46. *Ibid*., p. 11.

47. Benjamin J. Cohen, "Balance-of-payments Financing: Evolution of a Regime", *International Organization*, Vol. 36, No. 2 (1982), p. 475; Kenneth W. Dam, *The Rules of the Game: Reform and Evolution in the International Monetary System* (Chicago: University of Chicago Press, 1982), p. 72.

economic order".[48] Therefore, the presence of a hegemon may or may not have been a necessary condition for regime formation, but it is important to understanding why it looks the way it does.[49] Or, in the words of J.G. Ruggie, "it was less the fact of American *hegemony* that accounts for the explosion of multilateral arrangements [at the end of the Second World War] than of *American* hegemony".[50]

The main point of controversy between the United States and British negotiators was on the number of controls that would be established. "A conflict in ideologies [liberalism and Keynesianism] concerning the functions of economic policy and the role of the government in economic life complicated agreement on the details of postwar international monetary organization."[51] Keynes wanted more radical restructuring in the form of available credit than the United States did because the United States was concerned about having to provide unlimited financing to the rest of the world.[52] However, because US economic power was so much greater than Britain's, it was American policy that won out in the end. For example, Keynes chose to abandon his push for an international clearing union, which was a major sticking point between the two countries, paving the way for negotiations to proceed. "As Keynes's associate Lionel Robbins later recalled, 'Once we had recognized the political unacceptability of the unlimited liability of the creditor, the rest was a compromise between essentially friendly negotiators.'"[53]

This process reflects Gramsci's definition of hegemony because it was a system based on the intellectual and moral leadership of the United States and rooted in consent, with occasional arm-twisting taking place. The rules of the Fund at first benefited the United States by linking all currencies to the dollar and by enabling a predictable trading environment which the United States was in the best position to exploit. In 1971, when the system of a fixed dollar value began to disadvantage the United States, President Nixon made the unilateral, and shocking, decision to abandon it.

Yet, while the activities of the Fund changed radically in the 1970s, the underlying commitment to multilateralism and liberalism did not change, and in fact became stronger. Changes in the Fund's mission in the 1970s resulted from several converging forces. The first was the pressure on the dollar and the shift from managed exchange rates to floating rates. The second was the oil shocks that resulted in massive debts for developing countries. And the third was the ideological shift in academia away from Keynesianism toward neoliberalism, which had by this time come to influence policy decisions as well. Neoliberalism embraced the ideas of classical liberal economics that emphasise market

48. Mark T. Berger and Mark Beeson, "Lineages of Liberalism and Miracles of Modernisation: The World Bank, the East Asian Trajectory and the International Development Debate", *Third World Quarterly,* Vol. 19, No. 3 (1998), p. 488.

49. Oran R. Young, "Political Leadership and Regime Formation: On the Development of Institutions in International Society", *International Organization*, Vol. 45, No. 3 (1991), pp. 286–287.

50. John Gerard Ruggie (ed.), *Multilateralism Matters: The Theory and Praxis of an Institutional Form* (New York: Columbia University Press, 1993), p. 8.

51. Dam, *op. cit.*, p. 76.

52. Robert Solomon, *The International Monetary System, 1945–1976: An Insider's View* (New York: Harper & Row, 1977), p. 11.

53. Alfred E. Eckes Jr, *A Search for Solvency: Bretton Woods and the International Monetary System, 1941–1971* (Austin: University of Texas Press, 1975), p. 97.

capitalism and free trade, but added a social and moral aspect, which included the reification of the market, a focus on private property, and decreasing government regulation with zeal. Neoliberalism also has a political component, which emphasises the promotion of democracy as the best form of government for ensuring a particular economic order. The result for industrialised countries was more freedom from government and Fund restraints on their economies. The result for developing countries, increasingly in need of loans, was expanded lending by the Fund, but under strict, neoliberal conditions that mandated removing government control over their economies.

This shift to neoliberalism was completed in the 1980s under US leadership. Shortly after President Reagan took office in the United States, the staff of the IMF produced a background paper on structural reforms that echoed Reagan's preference for economic liberalisation and supply-side economics. Although this proposal was met with hostility from the developing countries, the Fund staff encouraged countries to adopt liberal structural reforms throughout the 1980s.[54] This is an excellent example of how the IMF, once its legitimacy was established, was used by the hegemonic powers to create norms that upheld and reinforced the system.

The increasing role of the IMF in suggesting policy to promote economic development in low-income countries throughout the 1980s has been described as a classic case of "mission creep".[55] This was largely a result of the increasing number of low- and middle-income countries that were borrowing funds and a corresponding decrease in developed-country borrowers. It also led to the problematic overlap of the missions of the Fund and the Bank, as the Fund became increasingly involved in dictating fiscal policy.[56]

Legitimating Global Norms

In Gramsci's understanding of hegemony, intellectuals play a significant role in creating homogeneity and self-awareness within the social group.[57] Augelli and Murphy note that in order for a social class to achieve and maintain supremacy, it must also capture the ideological realm:

> The intellectuals of the hegemonic class must produce a philosophy, political theory, and economics which together constitute a coherent world-view, the principles of which can be translated from one discipline to another ... [I]ntellectuals of the dominant class must prevail over the intellectuals of other classes by developing more convincing and sophisticated theories, inculcating other intellectuals with the dominant world-view, and assimilating them to the hegemon's cause.[58]

54. James M. Boughton, *Silent Revolution: The International Monetary Fund 1979–1989* (Washington, DC: International Monetary Fund, 2001), pp. 588–589.

55. Woods, *The Globalizers*, *op. cit*.

56. Joseph E. Stiglitz, *Globalization and its Discontents* (New York: W.W. Norton, 2003), p. 14.

57. Gramsci, *Selections from the Prison Notebooks*, *op. cit*., p. 5.

58. Enrico Augelli and Craig N. Murphy, "Gramsci and International Relations: A General Perspective with Examples from Recent US Policy toward the Third World", in Stephen Gill (ed.), *Gramsci, Historical Materialism and International Relations* (New York: Cambridge University Press, 1993), p. 131.

One way the Fund helps legitimate these hegemonic norms is through its role as a producer of authoritative scholarship upon which its own policy is based. The IMF supports a particular research agenda that is dominated by neoliberalism.

Neoliberalism began to emerge as early as the mid-1970s, but gained political traction in the 1980s and became firmly entrenched after the fall of the Soviet Union in the 1990s. This ideology was supported through organisations such as the G7, the World Bank, the World Economic Forum, the Bank for International Settlements, the General Agreement on Tariffs and Trade (GATT), which later became the World Trade Organization (WTO), and the IMF. It was a movement that embraced the notion of "free trade" as the main engine of economic growth for all states. Although this idea was largely institutionalised at the end of the Second World War, it was not until the 1980s that it became the single dominant focus of international economic policy, and the East Asian financial crisis of 1997 was seen as the nail in the coffin of state intervention. In addition, by the decade of the 1990s, the members of the G7 had achieved an unprecedented ability to influence, both economically and politically, the affairs of the developing world, and institutions such as the IMF were the chief tool for accomplishing this.[59]

Michel Camdessus, Fund Managing Director from 1987 to 2000, referred to the spread of liberal norms as a "silent revolution". In the developing world, there was a shift away from nationalistic trade policy and government management of the economy and toward privatisation, free trade, and multilateralism.

> To a great extent, the silent revolution of the 1980s resulted from a shift in economic philosophy toward a new classical synthesis in which government has an indirect role in, but not a direct responsibility for, ensuring national economic prosperity; in which private economic activity is promoted through good governance and the development of physical and social infrastructure.[60]

The norms of this system include: the predominance of the market over the state; pursuing development through privatisation and trade; assuming personal responsibility for failure; and measuring development by national statistics, like export growth and growth of GDP. This system reflects a moral value system that places a high value on individualism, the need to prevent moral hazard, a belief that capitalism is the "best" economic system, and seeing freedom as more important than equality. The IMF legitimates these norms through research, surveillance, and advising states, and by being a key player in a transnational civil society.

Gramsci notes at length the important role that such intellectuals play in legitimating the governing norms of their social group: "The intellectuals are the dominant group's 'deputies' exercising the subaltern functions of social hegemony and political government."[61] They are the main organisers of consent in civil society

59. Stephen Gill, "Gramsci and Global Politics: Towards a Post-Hegemonic Research Agenda", in Stephen Gill (ed.), *Gramsci, Historical Materialism and International Relations* (New York: Cambridge University Press, 1993), p. 8.

60. Boughton, *op. cit.*, p. 3.

61. Gramsci, *Selections from the Prison Notebooks*, *op. cit.*

yet also carry out the administrative functions of the state.[62] Gramsci believed intellectuals played a key role in creating and upholding this hegemony. He saw them as "agents" of the dominant group in exercising both social hegemony and political governance. As specialists they had a dual ethical and political function.[63]

Intellectuals play an important role as economists within the Fund, state governments, private enterprise and in academia. Examples abound of influential people who spent their careers moving seamlessly between the private sector, academia, national policy making, and the IMF. One such example is Paul Volcker. His career began in the Federal Reserve Bank of New York, in the 1970s he presided over the major reform of the Fund as the US Under Secretary for International Monetary Affairs, in 1979 was appointed Chairman of the US Federal Reserve, in the 1980s he worked at a private investment bank, more recently he was appointed by the United Nations to investigate the Iraq Oil for Food scandal, and is currently heading the President's Economic Recovery Advisory Board. Another less-well-known example is Thomas D. Willett, an economist who was tapped from the academic world in 1972 to serve as Deputy Assistant Secretary of the Treasury for International Affairs and later served as Director of Research and Senior Advisor for International Economic Affairs for the US Treasury. Willett later went on to work at the American Enterprise Institute, a conservative think tank, and then returned to academia. A more recent example is the current US Treasury Secretary, Timothy Geithner, who served as the Under Secretary of the Treasury for International Affairs in the 1990s, followed by a stint at the Council on Foreign Relations. In 2003 he became President of the Federal Reserve Bank of New York. During his tenure there he helped engineer the bailout of Bear Stearns and AIG. In 2009 he became the US Treasury Secretary.[64] Another excellent example is Robert Rubin, former US Treasury Secretary. Prior to holding this position Rubin was employed at Goldman Sachs and subsequent to leaving the Treasury Department he went to work for Citigroup.

Intellectuals are present as economists at the IMF, where their power to determine the content and define the terms of the debate is extremely important. For example, because IMF and World Bank economists use income as a measure of development, elites in developing countries can justify harsh economic policies by pointing to rising GDP figures. However, the reality is that in many cases income distribution, as measured by the Gini coefficient, and human welfare, as measured by the Human Development Index (HDI), rarely change or improve only slightly relative to the rising GDP. In Ghana, the Gini coefficient worsened from 0.352 in 1988 to 0.428 in 2009, although its HDI did improve somewhat. In states such as Jordan, there is a large discrepancy between urban and rural areas in terms of social indicators, such as advanced education, which may not be apparent from aggregate state data. Citizens with college degrees are concentrated in the larger cities, while rural towns, such as Ma'an and Karak, sites of two "IMF riots", have no college degrees.[65] Likewise, in terms of HDI, the

62. James Martin, *Gramsci's Political Analysis: A Critical Introduction* (New York: St. Martin's Press, 1998), p. 47.

63. *Ibid*., p. 54.

64. For more examples see Peet, *op. cit*., pp. 17–22.

65. Nasim Barham, "Sectoral Actors in the Jordanian Economy", in George Joffé (ed.), *Jordan in Transition* (New York: Palgrave, 2002).

urban areas of Amman and Aqaba rank significantly higher than the more rural areas of Ma'an and Karak. Amman and Aqaba were about 0.77, while Ma'an and Karak were about 0.72 and 0.74 respectively, according to US Department of State data in 2003.

Evidence of the coalescing of a true global civil society that supports the hegemonic transnational elite class can be seen in many governmental and non-governmental organisations. The annual meeting of the World Economic Forum, which brings together leaders in government, economic IOs, and business, puts forth an agenda that serves the interests of these individuals and their constituents. Also, the Group of Thirty, a sort of alumni association for former IMF and World Bank executives as well as finance ministers from leading states, meets regularly and publishes influential opinion pieces that also promote this agenda. Carroll and Sapinski demonstrate the consolidation of elites within what they call transnational policy-planning bodies, where there is an overlap in membership of CEOs and such bodies.[66]

Rules that Facilitate the Hegemonic World Order

As Gramsci notes, hegemony relies on the intellectual and moral leadership of the dominant social group. The power of this group is constituted of two sources: social hegemony, which is derived from the spontaneous consent given by the general population to the "general direction imposed on social life by the dominant fundamental group"; and state coercive power, which is the legal authority given to those who run the state to enforce discipline.[67] By establishing and enforcing norms of behaviour, a successful hegemonic class does not need to use force and, in fact, can allow democracy and a multitude of civic organisations to flourish because its beliefs and values have become so ingrained in society that their hegemonic status is not threatened by a counter-hegemonic movement. "Hegemony is enough to ensure conformity of behavior in most people most of the time."[68]

In addition, this power is enhanced through the ability to create rules and laws. For example, in the 1920s Gramsci noted that the ruling class in Italy used its power to impose laws to maintain their position of dominance. The bourgeoisie owned the printing presses and meeting halls, which they used for their own propaganda, while they used ostensibly legal justifications to destroy the few presses and halls the workers had. Likewise, violence against protestors was sanctioned by the government. Thus, while Italy claimed to have a liberal democracy, there was no real freedom, no free elections.[69]

The rules that support the hegemonic power of the dominant social group that the IMF supports are those of neoliberal economic policy. These rules are expressed in the Fund's Articles of Agreement and through a variety of policies that the IMF upholds, including floating exchange rates, reducing capital controls, and economic development policy that stresses exports and free trade.

66. William K. Carroll and Jean Philippe Sapinski, "The Global Corporate Elite and the Transnational Policy-planning Network, 1996–2006: A Structural Analysis", *International Sociology*, Vol. 25 (2010).

67. Gramsci, *Selections from the Prison Notebooks*, *op. cit.*, p. 12.

68. Cox, "Gramsci, Hegemony and International Relations", *op. cit.*, p. 164.

69. Antonio Gramsci, *Selections from Political Writings 1921–1926* (New York: International Publishers, 1977), pp. 35–37.

Historically, the policy focus of the Fund has changed only when the current policies began to disadvantage the United States, while new policy has been crafted to enhance the global power of the United States.

This can be seen even more clearly through the policies imposed on developing countries via conditions imposed on concessional loans through the Poverty Reduction and Growth Facility (PRGF), which was replaced by the Extended Credit Facility (ECF) in 2009. The ECF provides loans to low-income heavily indebted poor countries (HIPC) that stack the deck against the average citizens of these countries in favour of a cross-national capitalist class. The main components of such conditions include: reducing government spending through privatisation of state enterprises, reduction of the civil service and cutting spending for social services; devaluing currency to make exports cheaper and raising interest rates to encourage foreign investment; and removing trade barriers by ending price controls and establishing tax-free zones for foreign corporations. The result has been "success" for many of the IMF borrowers, if this success is defined as increasing trade and a rising GDP. However, the result has been more devastating for people who relied on jobs created by state enterprises and on state-sponsored social services, and where subsistence farms have been replaced by large, corporate farms producing for export. There are also often devastating social costs to such policies, the result of decreased state spending on programmes like health care and education. In addition, higher interest rates make it difficult for small, local businesses to obtain loans. Therefore, capital tends to flow to large, wealthy corporations with international ties instead. Trade liberalisation has generally benefited the developed countries, especially the United States and countries of the European Union (EU), more than the developing countries.[70] Also, there is no incentive for the Fund to support industrialisation in these states, so exports continue to consist mainly of primary goods.

The IMF policy of promoting liberalised capital markets also works to the benefit of Western banks. For example, liberalised capital markets in East Asia exacerbated the situation there in 1997 and perhaps allowed the economic collapse that occurred to take place. However, it also allowed Western banks to pull capital out of these states before the situation became too precarious for them.[71]

IMF structural adjustment programmes can also threaten political stability and lead to declines in democracy in developing countries, despite the efforts of such programmes to promote political liberalisation. IMF riots are largely a response to this inequitable distribution of the benefits of an IMF loan. The result in many countries, especially in the Middle East and Africa, has been increasing authoritarianism, rather than political liberalisation. For example, austerity programmes instituted at the insistence of the IMF were responsible for riots in Argentina in 1976, in Egypt in 1977, in Morocco in 1981 and 1984, in Tunisia in 1983/84, in the Dominican Republic in 1984, in Sudan in 1985, in Indonesia in 1988, and in Jordan in 1989 and 1996.[72] Both the governments of developing states and

70. Riad al Khouri, "National Security Aspects of Western–Middle East Free Trade Agreements", *Aussenwirtschaft*, Vol. 62, No. 2 (2007), pp. 179–180.

71. Stiglitz, *op. cit.*, p. 64.

72. Abbas Abdelkarim, Abdallah el-Hassan and David Seddon, "The Generals Step In", *MERIP Reports*, No. 135 (1985); Jim Paul, "Riots in Morocco", *MERIP Reports*, No. 99 (1981); *idem*, "States of Emergency: The Riots in Tunisia and Morocco", *MERIP Reports*, No. 127 (1984); Peet, *op. cit.*, pp. 100–101; Joe Stork, "Bailing out Sadat", *MERIP Reports*, No. 56 (1977).

radical social groups within these states have used such riots to their advantage. For example, although most of these riots seemed to be spontaneous in nature, often groups advocating for political change, such as the Muslim Brotherhood, student organisations, and trade unions, used them as a way to advocate their own causes. On the other hand, governments have also seized this opportunity to arrest their critics in the name of "national security". Typically, the immediate crisis ends when the government accedes to some of the demands of the citizens, usually in a nominal way that does not resolve the long-term economic problems that precipitated the crisis in the first place. But at times these riots create anti-democratic policies.

In addition, Western states often use Fund loans to advance their own foreign policy goals. A case in point is that of Jordan in the 1990s. Given its strategic geographic and political position, Jordan was an important state for Western powers at this time. The role of the Western developed countries in the case of Jordan was twofold. First, they sought to secure a new market for their own goods in the developing world. Second, and more importantly, they sought to bring Jordan onto their side in the Arab–Israeli conflict. Jordan was encouraged, through the Fund's urging, to open its markets to Israel and the West. Jordan stood to gain through increased aid and investment, while, for their part, the United States and European Union stood to gain both in terms of security and by boosting their own economies through forging economic ties with Jordan. As a result, Jordan joined the Barcelona process, a Euro-Mediterranean regional summit group established in 1995 to promote economic and security co-operation.[73,74] Jordan also established a Qualifying Industrial Zone (QIZ) in 1997. All products produced in the Jordanian QIZ were required to have 8% of their input from Israel, but were then given duty-free access to US markets. The purpose of this was both to reward Jordan for its role in the Middle East peace process in 1994 and to promote greater regional co-operation. However, benefits from the QIZ accrued mainly to foreign firms, which set up operations in Jordan and hired cheap foreign labour, and to the new Jordanian business class elites.[75]

In general, the West benefits more than the developing world from such "trade openness". For example, when Jordan established a free trade agreement (FTA) with the European Union in 1999, greater benefits accrued to the European Union than to Jordan. Subsequent to this agreement, Jordan's trade deficit with the European Union grew from JOD 986 million to JOD 1629 million between 2002 and 2006, contributing to a record balance-of-payments current account deficit of 15% of GDP in 2005.[76] Jordan fared better with a 2001 FTA with the United States; however, exporters in Jordan stood to gain only somewhat from this agreement, while those in Jordan's domestic agricultural sector stood to lose more through increased trade with the European Union and United

73. Jordan Ministry of Planning and International Cooperation, *Barcelona Process of the Euro-Mediterranean Partnership* (2008), available: <http://www.mop.gov.jo/pages.php?menu_id=237&local_type=0&local_id=0&local_details=0&local_details1=0> (accessed 18 August 2009).

74. Other members include Morocco, Algeria, Tunisia, Egypt, Israel, Jordan, the Palestinian Authority, Lebanon, Syria, Turkey and the 25 members of the European Union (Libya has had observer status since 1999).

75. Markus E. Bouillon, "Gramsci, Political Economy, and the Decline of the Peace Process", *Critique: Critical Middle Eastern Studies*, Vol. 13, No. 3 (2004), pp. 249–250.

76. Al Khouri, *op. cit.*, pp. 179–180.

States.[77] The result was increased wealth and power for only those groups within Jordan that aligned themselves with the West; however, the states of the West achieved both their security and economic goals in the region. The IMF aided the policy implementation of the Jordanian government by legitimising their policy choices and proclaiming their success, ensuring hegemony for both the Western powers in the form of neoliberalism and the ruling regime in Jordan.[78] The rules promoted by the IMF certainly facilitate a particular global system, one that revolves around free trade and open markets.

Co-opting the Periphery

Gramsci's Italy of the early 20th century, which had recently emerged from a process of consolidation in the Risorgimento, makes an apt analogy to the global system today. Gramsci identified a clear distinction between the north and the south in terms of both the capitalist class and the workers. The more industrialised north consisted of the oligarchical capitalists, while the south was dominated by the agrarian capitalists. Therefore, although they were unified in terms of their desire to protect private property, they had many differences. In addition, the new class of the petty-bourgeoisie was emerging, which linked its fortunes to the capitalists in the fascist party. For the working class, the northern proletariat struggled to find union with the agrarian peasants in the south. The problems they faced were of different sorts, although they, too, were unified in their opposition to the bourgeoisie. The parallels to the global system are clear, and demonstrate the difficulty in creating unified class movements, which makes these disparate groups more susceptible to co-optation by the ruling class.

The IMF also has greater leverage than other IOs in making its case for a particular economic approach. The resources it has to collect data and produce reports outstrips its critics, and there is a certain level of legitimacy gained by the amount of data it collects.[79] Gramsci seems to imply that the governed are almost tricked into providing their consent for the ruling class, not because they are unintelligent but because the ruling class is able to convince them that it is in their interests. Intellectuals play a key role in supporting ruling-class ideology by publishing academic works that are later cited by political elites to justify their policy choices. One such example can be seen in a note from Thomas Leddy, Deputy Director of the Office of International Monetary Affairs, to Deputy Under Secretary for International Monetary Affairs Jack F. Bennett on using the work of well-respected economist Fritz Machlup to justify a policy position on gold:

> The attached [Fritz] Machlup essay on "The Book Value of Monetary Gold" is a good, short, clear presentation on the role of gold in exchange rate determination and valuation questions associated with exchange rate and gold price changes. It has a few judgments we may disagree with, but

77. *Ibid*.

78. Julie L. Mueller, "Drinking the Kool-Aid: The IMF and Global Hegemony", *Middle East Critique*, Vol. 19, No. 2 (2010); Stone, "The Political Economy of IMF Lending in Africa", *op. cit*.

79. Michael Barnett and Martha Finnemore, *Rules for the World: International Organizations in Global Politics* (Ithaca, NY: Cornell University Press, 2004).

> it might help our case, if and when we submit legislation on the gold price, to try to see that it gets wide public distribution.[80]

In the case of Jordan cited above, the most important role of the IMF was the co-optation of elites. Given that the level of democratic participation is low in Jordan, it is not the general population who need to be sold on IMF policies, but the political leadership. The IMF officials and the policies they have enforced in the case of Jordan reflect the views of policy makers in Western states like the United States and the European Union. The IMF recommended economic policies that focused on expanding and liberalising Jordan's trade and provided positive reinforcement in the form of continued loans for political policies that favoured Western allies like Israel, at the expense of Western enemies like Iraq. The beneficiaries in Jordan were mainly a new class of export-oriented entrepreneurs with close ties to the monarchy.[81] King Abdullah II, who ascended to the throne in 1999, favoured globalisation and surrounded himself with like-minded elites.[82] This view was likely developed during his education at Oxford University and Georgetown University.

The Fund's leadership role on new issues, such as global warming and terrorism, greatly enhances its ability to influence states on the periphery.[83] As the Fund's mission grows to encompass an increasingly expanded range of issues affecting developing states, so, too, does its ability to influence state policy making on a broader range of issues and steer them toward neoliberal solutions for such problems.

Absorbing Counter-hegemonic Ideas

Another crucial aspect in the spread of Western imperialism has been the ability to co-opt opponents of neoliberalism. The Gramscian literature helps explain the process whereby elites in developing states and even the lower classes come to see liberal norms as in their interest through what Gramsci calls *transformismo*. This is the "gradual but continuous absorption of allied groups and even antagonistic and seemingly irreconcilably hostile groups" into the sphere of hegemony.[84] While Gramsci used this term to refer to the gradual convergence of political parties in Italy on the left and right after the Risorgimento, it can also be seen as "a strategy of assimilating and domesticating potentially dangerous ideas by adjusting them to the policies of the dominant coalition", thereby frustrating potential opponents.[85] As Robert Cox notes, "*transformismo* worked to co-opt potential leaders of subaltern social groups", such as the co-optation of opponents

80. "Mr. Leddy Chron. File, October–December, 1971", File NND 36259, Entry 106, Box 1. (National Archives, Files of the Office of the Assistant Secretary for International Affairs, Chronological Files of Thomas Leddy, Deputy Director of International Monetary Affairs 1970–1979, RG 56).

81. Mueller, *op. cit*.

82. Curtis R. Ryan, *Jordan in Transition: From Hussein to Abdullah* (Boulder: Lynne Rienner, 2002).

83. Hugh Bredenkamp and Catherine Pattillo, *Financing the Response to Climate Change* (Washington, DC: International Monetary Fund, 2010); International Monetary Fund, *The IMF and the Fight against Money Laundering and the Financing of Terrorism* (Washington, DC: International Monetary Fund, 2010), available: <http://www.imf.org/external/np/exr/facts/aml.htm> (accessed 15 May 2010).

84. Gramsci, *Selections from the Prison Notebooks*, *op. cit*., p. 59.

85. Cox, "Gramsci, Hegemony and International Relations", *op. cit*., pp. 166–167.

of economic liberalisation through incentives or concessions.[86] By ensuring that critics of liberalisation buy into liberal ideals—the definition of development, the need to expand exports, the benefits of globalisation, etc.—leaders protect their hegemonic position both domestically and globally.

There are several ways that the Fund has attempted to address critics that charge it with ignoring the needs of the poor and not being responsive to calls for reform and critical self-evaluation. One method was to implement the Poverty Reduction Strategy Programs (PRSPs). Initiated in 1999 by the World Bank and IMF, PRSPs are meant to be comprehensive plans to address the issue of poverty in developing countries. Governments are encouraged to develop plans that include "domestic stakeholders", which remains undefined, and "external development partners", namely the World Bank and the Fund. Ostensibly, the main purpose of the PRSPs is to give a greater voice to grassroots participants, and, therefore, greater buy-in on their part. PRSPs also encourage greater participation by NGOs and a greater focus on results in terms of poverty reduction.

However, one could argue that the PRSPs are merely a tool of *transformismo*. Little has changed regarding IMF conditionality since their institution, and much criticism exists in the literature regarding their effectiveness.[87] In particular, many critics of the Fund view the PRSPs, because they are required to consult grassroots constituencies for their input, as a way of placating the Fund's harshest critics without making substantive changes.[88] The main criticisms charge that civil society groups without strong representation in the government already tend to be excluded from the process and that the policies suggested for poverty reduction still follow the (failing) neoliberal model.[89] Even the Independent Evaluation Office of the Fund found that the PRSPs, while an improvement over previous practices, "had limited impact in generating meaningful discussions, outside the narrow official circle, of alternative policy options with respect to the macroeconomic framework and macro-relevant structural reforms".[90]

Another recent "reform" at the Fund has been the creation of the Independent Evaluation Office (IEO). The IEO was created in 2000 in response to Fund critics who claimed the Fund was not transparent enough or accountable for its policy recommendations. The idea behind it was to create an independent watchdog to monitor the effectiveness of the Fund. As noted on its website:

86. *Ibid*., p. 166.

87. Andrea Cornwall and Karen Brock, "What Do Buzzwords Do for Development Policy? A Critical Look at 'Participation', 'Empowerment' and 'Poverty Reduction'", *Third World Quarterly*, Vol. 26, No. 7 (2005); Alastair Fraser, "Poverty Reduction Strategy Papers: Now Who Calls the Shots?", *Review of African Political Economy*, Vol. 32, No. 104/105 (2005); Graham Harrison, "HIPC & the Architecture of Governance", *Review of African Political Economy*, Vol. 31, No. 99 (2004); Heloise Weber, "Reconstituting the 'Third World'? Poverty Reduction and Territoriality in the Global Politics of Development", *Third World Quarterly*, Vol. 25, No. 1 (2004); Tunde Zack-Williams and Giles Mohan, "Editorial: Africa from SAPs to PRSP: Plus ca Change Plus c'est la Même Chose", *Review of African Political Economy*, Vol. 32, No. 106 (2005).

88. Arne Rückert, "Producing Neoliberal Hegemony? A Neo-Gramscian Analysis of the Poverty Reduction Strategy Paper (PRSP) in Nicaragua", *Studies in Political Economy*, Vol. 79 (2007); Zack-Williams and Mohan, *op. cit*.

89. Peet, *op. cit*., pp. 111–113.

90. IMF-IEO, *Evaluation of the IMF's Role in Poverty Reduction Strategy Papers and the Poverty Reduction and Growth Facility* (Washington, DC: International Monetary Fund, 2004), p. 3.

> The IEO is fully independent from IMF management and operates at arm's length from the Executive Board, although the Board appoints its director. The IEO's mission is to enhance the learning culture within the IMF, strengthen its external credibility, promote greater understanding of the work of the Fund, and support institutional governance and oversight.

However, the term "independent" is a relative one. The current head of the IEO, Moises Schwartz, served as an Executive Director of the Fund from 2004 to 2006. Prior to this, Schwartz was employed by the Central Bank of Mexico, the Mexican Ministry of Finance and most recently by the National Commission for Retirement Savings in Mexico. Schwartz also holds a PhD in economics from the University of California, Los Angeles. This is another example of how intellectuals move from academia, to government services, to IOs like the Fund. The IEO is an excellent example of *transformismo*. Rather than provide tough, critical assessments of the work of the Fund, it has become more of a rubber stamp for Fund programmes. However, its very existence will help mollify some critics.

Reforming the IMF

Understanding the role of the Fund in creating and upholding a hegemonic neoliberal system is the first step toward meaningful reform. However, the proposals for reforms that have received the most attention, both within the Fund and in policy-making circles in the major industrialised countries, have generally come from the same academics who have been weighing in on Fund issues since at least the 1960s, including Allan Meltzer, Fred Bergsten, Tom Willett and Edwin Truman, with think tanks like the American Enterprise Institute, Peterson Institute for International Economics and the Council on Foreign Relations all making recommendations. While the reforms that have been recommended are a step in the right direction of making the Fund more democratic and accountable, there is little "outside the box" thinking, and the fact remains that the dominance of neoliberal ideology among decision makers, combined with the structural hegemony of the United States, means little meaningful reform is likely for the developing world. More critical reflection on the Fund tends to come from outside the field of political economy, from such areas as public health, geography, education, and public policy.[91]

A frequent refrain regarding IMF reforms is the notion that the IMF should get out of the business of development lending altogether. The International Financial Institution Advisory Commission, chaired by Allan Meltzer, proposed in 2000 that the IMF cease all long-term loans for poverty reduction.[92] In 2004, the Bush administration proposed a clearer division of labour between the IMF and World Bank,

91. Global Campaign for Education, *Education on the Brink: Will the IMF's New Lease on Life Ease of Block Progress towards Education Goals?* (Johannesburg: Global Campaign for Education, 2009); Peet, *op. cit.*; Rick Rowden, *The Deadly Ideas of Neoliberalism: How the IMF has Undermined Public Health and the Fight against AIDS* (New York: Zed Books, 2009).

92. Allan H. Meltzer, *Report of the International Financial Institution Advisory Commission*, Report prepared for the Joint Economic Committee of the House and Senate, 106th Cong., 2nd sess., 2000.

with the IMF focusing specifically on monetary policy, fiscal policy, financial markets, and exchange rates, while leaving economic development and social issues to the World Bank.[93] In his 2005 testimony before the US Senate, C. Fred Bergsten, although a dissenting vote on the Meltzer Commission, also argued that the IMF should encourage debt forgiveness for the HIPC members, financed through the sale of the Fund's gold reserves, and should transfer the PRGF loans to the World Bank and get out of the development business.[94] However, given that the World Bank is largely run on the same principles as the IMF, requiring many of the same conditions for borrowers, this shift will have little impact on those receiving the loans. A better alternative might be utilising more of the regional development banks, where borrowers can have more significant input.

Another area of proposed reform relates to IMF governance. Several economists, as well as the governments of larger economies like China and South Korea, have suggested that EU representation needs to be reduced, while representation for the larger, emerging markets in the developing work must be increased.[95] Now that this change seems imminent, the question is how much this will actually change the Fund. The United States will still retain veto power, and giving greater representation to the governments of developing states seems unlikely to change the policy direction of the Fund, since many of their leaders were also products of the Western education system, and, therefore, also steeped in the ideology of neoliberalism. Likewise, the influence of private banks, also supportive of a market-centred approach to financial reform, should not be underestimated.[96]

The 2008 global financial crisis gave the IMF a new lease on life, but has had little impact on the role of developing states in the IMF, although it may force a re-examination of neoliberalism and the sacredness of "the market". Reforms suggested by the Fund in the wake of the crisis generally relate to strengthening its role in monitoring financial markets, such as increased lending to help lessen the impact of financial crises; surveillance in terms of providing targeted advice; drawing lessons from the crisis and urging states to make reforms based on these lessons. The Group of Thirty also suggests similar reforms to strengthen the role of the Fund in oversight of members' economic situations, including strengthening its surveillance capabilities and members' adherence to Fund advice; surveillance that includes specific policy advice; and monitoring and giving early warnings of systemic weaknesses.[97] As Truman notes in a prescient review of proposed IMF reforms published before the 2008 crisis, a major drawback to this system where the IMF provides surveillance of members' financial sectors is evidenced by the fact that the United States did not submit to Financial Sector Assessment Program (FSAP) reviews, used by the IMF and World Bank to determine a country's vulnerability to financial shocks, which made it difficult to

93. John B. Taylor, Under Secretary of Treasury for International Affairs, "The Bush Administration's Reform Agenda at the Bretton Woods Institutions: A Progress Report and Next Steps", Testimony before the Committee on Banking, Housing, and Urban Affairs, 19 May 2004.

94. C. Fred Bergsten, Testimony before the Senate Subcommittee on International Trade and Finance Committee on Banking, Housing, and Urban Affairs, 7 June 2005.

95. Edwin M. Truman (ed.), *Reforming the IMF for the 21st Century* (Washington, DC: Institute for International Economics, 2006), p. 76.

96. Peet, *op. cit*.

97. Group of Thirty, *Reform of the International Monetary Fund* (Washington, DC: Group of Thirty, 2009).

predict weaknesses in the US financial sector.[98] While the IMF reforms noted above seek to address this problem, Fund staff are unable to require the United States to submit to a FSAP review.

In Gramscian terms, a social group must mount a successful counter-hegemonic campaign to weaken, and eventually overtake, a hegemonic social group. One might ask whether new social movements have the power to succeed in reforming the Fund to make it more responsive to the needs of the poor. At the moment, this seems unlikely. Part of the problem is the lack of organisation and a consistent message. There are many movements, including labour, fair trade, women's rights, peasants' rights, and environmental protection, that oppose the policies of the Fund. However, because each seeks to promote their particular interests, they do not always speak with a coherent voice in favour of specific policy alternatives to neoliberalism. As Katz notes, a clear counter-hegemonic civil society on a global scale has yet to emerge.[99]

I am also pessimistic about the Fund's potential to change, in part because the governance issues are so intractable. For example, the most recent changes announced by the IMF regarding a reallocation of shares within the Fund has been promoted as an effort to give middle-income countries more say in how the organisation is run. In reality, it supports the recent efforts by the US Treasury Department to decrease the power of the EU members, viewed by the United States as having a disproportionately large share of voting power under the current system.[100] While it is often difficult to get EU countries to act in concert with one another, the fact remains that they are the most likely voting bloc within the Fund to be able to co-ordinate their efforts to oppose US policy. Under the proposed changes, their voting power vis-à-vis the United States is greatly reduced. Another obstacle to real change is the wholesale acceptance of the neoliberal paradigm that has come to dominate the thinking of Fund economists as well as the academic community of economists.[101] The inertia of this trend will be difficult to overcome.

The IMF continues to promote neoliberal policy because it truly believes it will work; and developing states continue to implement it because they, too, have been convinced of its superiority in creating long-term growth. How, then, do we overcome the situation where neoliberalism takes on the status of a religion? First, it is not necessary to completely replace positive research methods with post-positive ones. Positive research provides valuable snapshots of the effects of Fund policy. However, this research will be more useful if it is more self-consciously aware of its biases and limitations. We need less "explaining" and more "understanding".[102] This is the only way in which *meaningful* reform will ever take place.

Second, we need to understand how power operates in the international system and where the IMF fits into this—how it reinforces hegemonic norms. We must acknowledge the hegemony of the Western powers and their ideology and learn

98. Truman, *op. cit.*, p. 61.

99. Hagai Katz, "Gramsci, Hegemony, and Global Civil Society Networks", *Voluntas: International Journal of Voluntary & Nonprofit Organizations*, Vol. 17, No. 4 (2006).

100. Edwin M. Truman, interview by the author, digital recording, 4 August 2010, Peterson Institute for International Economics, Washington, DC.

101. Chwieroth, "Normative Change from Within", *op. cit.*

102. Martin Hollis and Steve Smith, *Explaining and Understanding International Relations* (New York: Oxford University Press, 1991).

the lessons of the past. In addition, it is helpful to understand the fissures that exist within classes that make cohesive opposition to this hegemony impossible. But while we acknowledge the existing power structures, we must not let them stand unchallenged. Careful attention should be paid to existing international organisations and how they are utilised to uphold this power structure. A critical assessment of the norms that guide their behaviour is necessary.

Lastly, we need to restore a new ethical approach to creating economic growth. Blind faith in economic models is "morally barren", and has produced a system where the gap between the wealthy and the poor has been growing, not shrinking. Even if the IMF eliminates all of its concessional loans, leaving this to the World Bank, it must acknowledge that any loan given to a developing state affects its economic growth. A new ethical approach would replace the values of neoliberalism with a new set of values, centred on individual welfare, an emphasis on human development over economic development, economic growth from the bottom up, and transparency and equality within governance institutions. Intellectuals have an important role to play in either supporting or challenging the status quo. IPE scholars need to be more self-aware in examining the role of intellectuals, because self-awareness will promote a true counter-hegemonic movement not susceptible to *transformismo*.