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Back to Basics:
The Great Recession and the Narrowing of IMF Policy Advice

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Abstract:
This article contributes to the literature on the dynamics of change and continuity in the International Monetary Fund's (IMF's) policy paradigm. The IMF embarked on a process of 'streamlining conditionality' during the 2000s, but many observers have argued that the IMF's policy paradigm from the 1990s remains intact. This article examines whether the scope of the IMF's policy advice to borrowers during the Great Recession narrowed in comparison with its advice to borrowers during the heyday of the Washington consensus in the 1980s and 1990s. The article uses qualitative content analysis to establish the frequency of a series of policy dialogue indicators in four sample sets of countries requesting IMF stand-by arrangements (SBAs) over three decades. The evidence suggests that contemporary IMF policy advice to borrowers continues to stress the importance of fiscal consolidation, with reduced emphasis on promoting the structural economic reforms associated with the Washington consensus era.

Introduction

Before the financial crash in 2008 the International Monetary Fund (IMF) faced an uncertain future, with declining demand for IMF loan programs at the same time as a wide range of external critics, as well as some IMF insiders, pushed for substantive changes in the organization's lending policies and governance processes. Driven by a shrinking loan portfolio after 2003, the IMF's income that is earned from loan interest and charges fell by 2007 to less than one quarter of its average income during the period from 1998 to 2005, prompting the IMF to lay off 15 percent of its staff (Bird and Rowlands 2010; Broome 2010a). The onset of the Great Recession transformed both the level of demand for IMF lending and the size of its financial

resources. In November 2008 Iceland became the first West European country to agree a stand–by arrangement loan with the IMF since the UK in 1976 and Italy in 1977. Five months later the April 2009 Group of Twenty leaders' summit in London agreed to triple the IMF's lending capacity to US$750 billion (Kaya 2012). Within eighteen months of Iceland's loan agreement, a further 18 countries had negotiated stand–by arrangements with the IMF in response to the Great Recession and the subsequent slump in global trade and consumer demand, marking a pronounced turnaround in the IMF's relevance as a crisis management institution.

While scholarly and popular criticisms of the IMF's policy paradigm have remained consistent throughout the last two decades, over the last ten years the organization has transformed both its loan program modalities and how the objectives of loan programs are rhetorically framed. In contrast to the early 1990s, for example, the IMF now places a greater stress on the importance of country ownership, poverty reduction, and social protection (Bird 2008; Clegg 2013), while in 2009 the IMF abolished the use of structural performance criteria to assess policy compliance and shifted the focus of conditionality towards pre–set (*ex ante*) criteria for loan access (IMF 2009c). This approach contrasts starkly with the 'one–size–fits–all' approach to structural adjustment that the IMF was widely criticized for using to design loan programs during the 1990s (Willet 2001). Notwithstanding these recent shifts, a number of scholars have argued that the Washington consensus policy paradigm from the 1990s remains largely intact within the IMF, despite organizational reforms to voting rights, loan conditionality, and lending platforms (Babb 2012; Güven 2012).

This article addresses a simple question: has the scope of the IMF's contemporary policy advice to borrowers narrowed compared with its policy advice in the 1980s and 1990s? The scope of the IMF's policy advice is defined here as the composition of IMF staff recommendations to borrowers. During the heyday of the Washington consensus era in the 1980s and 1990s the IMF's policy advice to borrowers and the content of loan program conditions expanded to encompass a wide range of

structural economic reforms. This expansion in the scope of IMF policy advice and conditionality was especially pronounced under the leadership of former Managing Director Michel Camdessus (1987-2000), when IMF conditionality 'became broader, more extensive, and more detailed' (Boughton 2012: 896). This continued a trend towards the expansion of IMF conditionality that developed over the course of the late 1960s and the 1970s, despite resistance from developing country member states (Best 2012: 682).

Recent scholarship on the evolution of the IMF's policy preferences and lending practices in response to the Great Recession has focused on examining the content of loan conditionality (Gabor 2010; Grabel 2011; Lütz and Kranke 2013), the political determinants of IMF lending and governance processes (Presbitero and Zazzaro 2012; Lesage *et al.* 2013), and the cognitive assumptions that underpin the organization's policy paradigm (Babb 2012; Clift and Tomlinson 2012; Güven 2012; Moschella 2011; on the politics of economic ideas and policy paradigms, see Baumgartner 2013; Blyth 2013). This article does not measure the intrusiveness of IMF loan conditions for borrowers (Kang 2007; Stone 2008), nor does it measure the level of borrower compliance with IMF conditionality (Vreeland 2006). Instead, the article analyzes the scope of policy dialogue between IMF staff and national authorities, which shapes the negotiation of loan program objectives and performance criteria as well as longer–term goals for structural reform. The article proceeds as follows. The first section discusses the dynamics of external policy advice, and why the composition of the IMF's policy advice to national authorities provides an important indicator of continuity and change in the organization's policy preferences. The second section examines the reasons why the IMF's policy advice to national authorities is especially significant in the context of loan program negotiations. The third section sets out a framework for analyzing the scope of IMF policy advice to borrowers, based on the construction of a series of policy dialogue indicators. The fourth section reviews the results of a qualitative content analysis of the IMF's policy dialogue across 93 stand-by arrangement loan programs, and

examines the incidence of continuity and change across different policy areas. The article concludes that IMF policy advice to borrowers during the Great Recession focused more narrowly on a preference for fiscal consolidation rather than the structural economic reforms associated with the Washington consensus during the 1980s and 1990s.

External Policy Advice and the Power of Persuasion

National authorities typically seek to maximize their policy discretion over key areas of economic decision–making, such as fiscal and monetary choices (Sharman 2012; Simmons 2000). In specific circumstances, however, policymakers may face strong incentives to be more receptive to external policy advice on economic reforms. National policymakers may be more sympathetic to the IMF's advice if they share a common framework of understanding with IMF staff based on similar experiences of professional training and policy socialization (Chwieroth 2010; Woods 2006), or when the IMF supplies comparative policy expertise that validates national reform initiatives and empowers domestic experts (Broome and Seabrooke 2007; Fang and Stone 2012). The IMF may also gain substantive input into domestic policymaking processes at critical junctures as a means for states to achieve other ends. Broader strategic goals can include achieving access to multilateral loans, bilateral aid, and debt rescheduling agreements (Broome 2010b; Marchesi 2003), improving the investment climate to gain access to international capital markets (Bird and Rowlands 2002), the completion of accession negotiations to join international or regional organizations (Johnston 2008; Schimmelfennig 2005), and the avoidance of multilateral economic sanctions or blacklisting by other governments (Drezner 2000; Sharman 2006).

External policy advice that cuts across domestic policy preferences is often ignored by national authorities. Yet despite the ambiguous relationship between external policy advice and domestic policy change, a substantial proportion of the IMF's resources are devoted to the formulation and communication of national

policy advice for its member states. When the IMF's policy advice is backed up with financial incentives for domestic compliance through loan programs, it is harder for national authorities to reject reform recommendations out–of–hand.

The majority of the IMF's time is spent conducting surveillance on national economic policy settings and economic performance (Broome and Seabrooke 2007; Lombardi and Woods 2008), which forms the basis of policy advice that is communicated to states through regular Article IV consultations, multilateral surveillance reports, and, in the case of borrowers, through policy discussions over loan programs. Indeed, the provision of policy advice to its member states is considered to be 'an integral part of operationalizing the Fund's mandate' (IEO 2013: 1). Much of the IMF's policy advice nonetheless fails to resonate with national authorities, especially in the case of large economies where governments are unlikely to face the sovereignty costs associated with IMF loan agreements (Kaya 2012).

Analyzing the composition of the IMF's policy advice to its member states helps to capture a different side of the relationship between the organization and domestic policymakers than measuring the intrusiveness of loan conditionality (Stone 2008), the impact of IMF loans on public spending (Nooruddin and Simmons 2006), or the incidence of state compliance with the legal obligations of IMF membership (Simmons 2000). These aspects of the IMF's involvement in national economic policy choices are fundamental for understanding the political and economic consequences of loan programs, and whether they are effective in improving national economic performance. But the IMF also plays a broader role as a policy advisor in its interactions with national authorities (Broome 2010b: 186). The IMF's role as a policy advisor – as well as loan conditionality practices – has received strong criticism during the last two decades (Willett 2001; Woods 2006). Analyzing the scope of the IMF's policy advice to borrowers provides a window through which to trace changes in the organization's preferences for national economic policy reforms.

IMF staff members do not 'hold one distinct set of collectively shared beliefs' (Chwieroth 2010: 34). On policy choices such as the most appropriate exchange rate regime or fiscal policy framework for different countries IMF staff members may hold a range of views, and the IMF's organizational culture is characterized by strong internal debates over 'best practice' policy norms (see Park and Vetterlein 2010). Throughout the 1980s and 1990s, however, IMF loan programs became synonymous with a market liberalization policy paradigm rooted in John Williamson's (1993) articulation of the 'Washington consensus' (Boughton 2001: 28). During this period the IMF's policy paradigm for borrowers comprised three main features: (1) economic stabilization through the compression of domestic demand (Killick 1995: 12-13); (2) international economic integration through reducing trade barriers and diversifying exports (Barnett and Finnemore 2004: 59); and (3) liberalization of domestic markets through eliminating subsidies, privatizing state-owned enterprises and the delivery of public services, simplifying (and extending) consumption taxes, liberalizing interest rate and exchange rate controls, and reducing inflation (Woods 2006: 48).

[TABLE 1 ABOUT HERE]

The scope of the IMF's policy advice to borrowers is conceived here as a meso–level expression of the organization's policy preferences (see Table 1). At a micro–level, the policy dialogue between IMF staff and national authorities informs the design of loan program performance criteria, and how a borrower's policy compliance is subsequently evaluated. At a macro–level, the composition of policy advice is conditioned by the cognitive assumptions that underpin the IMF's policy paradigm (Barnett and Finnemore 2004: 57–59; Momani 2005).

Why IMF Policy Advice to Borrowing States Matters

The IMF's policy dialogue with borrowers is more consequential than its dialogue with non–borrowing member states for three reasons. These relate to: (1) the design of loan program conditions; (2) the evaluation of program performance and policy compliance; and (3) the prospects for a state to access future financial support after the completion of a loan program. Policy discussions between IMF staff and national authorities directly inform the design of loan program conditions (Broome 2010b; Chwieroth 2013). Such discussions encompass prior actions that must be agreed before a loan program request is approved, performance criteria that must be implemented before loan instalments are disbursed such as quantitative performance targets and (until recently) structural reform performance criteria, and 'softer' conditions such as indicative targets and structural benchmarks that are less stringent in design but stipulate the direction that policy settings and structural reforms should take over the course of a loan program (Copelovitch 2010: 52). These policy discussions between national authorities and IMF staff may influence how quickly, or indeed whether, a loan request is approved.

How the IMF evaluates a government's level of compliance with agreed prior actions can smooth the process of loan program approval, or might stall negotiations over program objectives if national authorities fail to demonstrate sufficient 'political will' to implement agreed policy reforms. The persuasive influence of the IMF's advice in discussions over loan program criteria is greater when governments must negotiate an IMF loan as a precondition for accessing additional forms of external finance from multilateral organizations, bilateral donors, or private lenders (Gould 2003). In these circumstances, the IMF performs a gatekeeper role over a country's access to multiple sources of external finance.

The scope of IMF policy advice to borrowers varies depending on whether IMF recommendations are focused on short-term policy adjustments or long-term structural reforms. Policy dialogue between IMF staff and national authorities establishes the modalities for how the IMF assesses a country's economic performance under a loan program, and how a government's policy compliance is

evaluated. Financial payments are disbursed at regular intervals over the duration of a loan arrangement, which provides a series of opportunities for IMF staff to monitor the authorities' progress and enforce policy compliance, to modify performance criteria in response to changing economic conditions, and to safeguard the use of IMF resources. Non–concessional stand–by arrangement loans typically incorporate a quarterly schedule for the implementation of performance criteria and contain program reviews at least every six months by IMF staff. Depending on the number of instalments and the length of the program, loan disbursements are conditional upon the successful completion of program reviews or the achievement of quarterly performance criteria, and require a formal recommendation from IMF staff to the Executive Board to approve a further disbursement of funds. During the period from 1995 to 2007, for example, 83 percent of all loan disbursements under stand-by arrangements were subject to the successful completion of quarterly program reviews, while the average waiver rate for countries that failed to achieve performance criteria in stand-by arrangements was 13 percent for quantitative performance criteria and 37 percent for structural performance criteria. Over the 2002-07 period 81 percent of all IMF loan programs required a waiver for missed performance criteria at some stage during the course of the program (IMF 2009a: 14). The dynamics of the loan disbursement process underscore the critical role played by IMF staff in evaluating loan program progress, which involves making judgements about a government's policy intentions as well as measuring compliance against conditionality metrics.

Significant deviation from loan program conditions – what the IMF terms *policy slippage* – can potentially result in the premature cancellation of a loan. This can restrict a country's access to future IMF financing until a government introduces policy changes that conform to the IMF's preferences and establishes a sufficient track record of policy cooperation with IMF staff. In most cases, waivers for moderate deviations from loan program conditions are approved by the IMF's

Executive Board following a formal request for the 'non–observance of performance criteria', or the Board may approve a modification of loan performance criteria.

How deviations from loan program conditions are assessed hinges on how staff interpret a government's commitment to maintaining policy cooperation with the IMF. The role of IMF staff in forming judgements about a government's policy intentions and the causes of 'policy slippage', and their responsibility for communicating these judgements to the IMF Executive Board, increases the significance of the initial policy discussions between IMF staff and national authorities when loan performance criteria are negotiated. IMF staff recommendations to the Executive Board depend in large part on whether policy slippage is blamed on insufficient political will and deliberate non–compliance by national authorities, or is attributed to an unforeseeable deterioration in a country's economic circumstances (Broome 2010b: 133, 162).

The composition of the IMF's policy advice to borrowers serves to shape the definition of policy problems, establish an order of policy priorities, signal longer–term structural reform objectives, and limit the policy choice–set that national authorities can draw upon during IMF loan programs. Because discussions invariably include a forward–looking focus that examines the 'medium–term outlook' for a country's economic performance and policy settings, this constitutes a reference point for future policy dialogue with the IMF, which informs how subsequent loan requests are evaluated by establishing a base line for judging policy progress. This can increase the incentives for national authorities to '*lock in a particular path of policy development*' in order to maintain a track record of cooperation with IMF staff (Pierson 1993: 606, emphasis in original). The importance of the IMF's policy dialogue with borrowers for future loan requests increased over the course of the 1980s and 1990s, during which around 70 of the IMF's member states became repeat borrowers that each had five or more annual loan programs within a ten–year period (Boughton 2012: 190). In contrast, when borrowers expect to need an IMF loan program infrequently there is less incentive to incorporate the IMF's advice in

policy formation beyond the minimum level of compliance necessary to access successive loan disbursements.

Analyzing the Scope of IMF Policy Advice

IMF lending practices became increasingly controversial over the course of the 1990s with critics arguing the IMF applied a 'one size fits all' policy template to address countries' varying economic challenges. While these criticisms of the IMF gained greater salience during the course of the decade with high-profile policy failures in Russia, Mexico, South Korea, Thailand, Indonesia, and elsewhere, observers have long noted strong similarities in the loan performance criteria applied to different borrowers. The similarities in IMF conditionality were usually attributed to bureaucratic precedents, conditionality guidelines, and the policy paradigm used by IMF staff (Buira 1983: 118). In particular, critics have long challenged the IMF's balance of payments model (Bacha 1987; Killick 1995), which identifies excessive domestic demand and credit expansion as the primary cause of macroeconomic imbalances rather than exogenous factors such as terms of trade, protectionist policies in key export markets, or volatility in international financial markets (Barnett and Finnemore 2004: 54-5).

The two main strands within the literature on the IMF's policy preferences focus on either the organization's role as a norm entrepreneur that shapes 'best practice' policy norms, or as a policy enforcer that seeks to maximize borrower compliance with agreed policy conditions. The first strand of the existing literature concentrates on understanding the endogenous and exogenous dynamics that produce the IMF's policy preferences, including its organizational culture and operational practices, the evolution of internal policy debates, and the promotion of global policy norms (Best 2012; Broome and Seabrooke 2012; Clegg 2013; Chwieroth 2010; Momani 2005; Moschella 2011; Park and Vetterlein 2010). The second strand of the existing literature examines the factors that influence how effectively the IMF can enforce its policy preferences through loan programs, such as the role of major shareholders

and supplementary financiers, domestic political variables in borrower states, and the impact of IMF lending on borrowers' economic performance (Breen 2012; Dreher and Gassebner 2012; Gould 2003; Pop–Eleches 2009a; Stone 2008; Vreeland 2003). To complement existing research that has examined the dynamics of the IMF's role as a norm entrepreneur or as a policy enforcer, the analytical framework in this article is geared towards identifying patterns of organizational change and continuity through an analysis of the IMF's role as a policy advisor (Chwieroth 2013; Woods 2006).

As discussed in the introduction, recent scholarship on the dynamics of IMF loan programs since the onset of the Great Recession has concentrated on establishing the incidence of change and continuity at a macro–level through examining evidence of shifts in the cognitive assumptions that underpin the IMF's policy paradigm, or at a micro–level through measuring the volume and form of loan performance criteria and benchmarks. Rather than examining the restrictiveness of individual policy conditions or the level of borrower compliance with program performance criteria, the objective here is to examine the incidence of change in the types of policy preferences that are promoted through the IMF's policy dialogue with national authorities in the context of loan program negotiations, when the influence of the IMF's advice is reinforced with financial incentives for compliance.

The series of policy dialogue indicators applied in this comparative analysis of IMF staff discussions with national authorities in 93 stand-by arrangement loan programs are adapted from John Williamson's (1993) list of policy recommendations that he famously labelled the 'Washington consensus'. These policy objectives are organized into the following eight categories: fiscal restraint; reduction of subsidies; broadening the tax base; interest rate liberalization; exchange rate liberalization; liberalization of international trade restrictions; privatization; and civil service retrenchment. From Williamson's (1993) formulation of the Washington consensus the legal protection of 'secure property rights' was excluded from the study because this comes under the purview of the World Bank rather than the IMF, as well as

'economic deregulation' where IMF policy advice across different countries is difficult to code with consistency. Civil service downsizing was added, which was not part of Williamson's original articulation of the Washington consensus but formed an integral component of IMF structural adjustment programs in the 1980s and 1990s.

[TABLE 2 ABOUT HERE]

The Washington consensus was closely associated with IMF loan conditionality during the 1990s (Broad and Cavanagh 1999; Bird 2001), although fiscal restraint recommendations for distressed economies represent a long–standing IMF priority that pre–dates the structural adjustment era (Babb 2012: 10; Nooruddin and Simmons 2006; Ban, this issue). Based on the existing literature that has examined IMF structural adjustment policies and the promotion of the Washington consensus policy paradigm (Babb 2005, 2012; Bird 1996; Woods 2006; Vreeland 2003), these policy preferences should feature with a high frequency as IMF staff recommendations in loan program negotiations during the 1980s and 1990s. Conversely, if the scope of the IMF's policy advice has narrowed during the last two decades, the same recommendations should feature less frequently as policy dialogue indicators in loan program negotiations during the Great Recession. Exogenous factors that may play an intervening role here include the possibility of domestic lock-in effects from earlier phases of structural economic reform (for an account of how earlier liberalization reforms have shaped the content of IMF and World Bank Poverty Reduction Strategy Papers, see Sumner 2006). Other exogenous factors may include domestic policy shifts that were driven by European Union (EU) or World Trade Organization (WTO) membership criteria. By focusing on the question of whether the scope of the IMF's contemporary policy advice to borrowers has narrowed compared with the 1980s and 1990s this article can only establish part of the story, and further research is required to fully explore the range of contextual

variables that might impact on the parameters of the IMF's policy discussions with borrowing member states.

The eight categories of policy preferences were disaggregated into broader sets of policy dialogue indicators to enable content analysis of IMF policy discussions across different types of borrowers (see Table 2 for details). For example, a policy preference for privatization was disaggregated into policy dialogue indicators including: (1) the divestiture of public enterprises; (2) a reduction in the state's shareholding in public enterprises; and (3) contracting out the delivery of public services to private firms. A policy preference for broadening the tax base was disaggregated into policy dialogue indicators including: (1) the introduction of new taxes; (2) the reduction or elimination of tax exemptions; (3) increasing tax rates on income or consumption; and (4) lowering the thresholds above which taxes are levied.

The disaggregation of each policy preference into a set of policy dialogue indicators that incorporate related staff recommendations mitigates the methodological challenge of assessing the content of IMF policy advice across countries facing different economic challenges and prospects, and which had varying levels of engagement with the IMF. In the 1990s, for example, many post–communist states had only recently joined the IMF, and the nature of economic transition from centrally–planned to market–based economies meant that IMF advice in favour of exchange rate liberalization might involve a recommendation for abolishing multiple rates of exchange at the same time as maintaining a high level of exchange rate intervention. In contrast, for borrowers with unified exchange rates liberalization might entail a recommendation for reducing the level of exchange–rate intervention. In both cases there might be a general preference for exchange rate liberalization, with different staff recommendations based on the authorities' policy settings at the start of loan program discussions.

[TABLE 3 ABOUT HERE]

The content of IMF policy advice to borrowers is drawn from the 'program discussions', 'medium–term outlook', and 'staff appraisal' sections of staff reports on country requests for new stand-by arrangement loans. The data is analyzed to measure the frequency of individual IMF policy preferences across borrowers. Based on the series of policy dialogue indicators set out in Table 2 the frequency of IMF policy advice was coded dichotomously. Explicit advice for one or more of these recommendations in the IMF's dialogue with national authorities was coded 1 for the respective policy preference listed in Table 2. When none of the relevant recommendations included in the set of dialogue indicators were present the respective policy preference was coded 0. The results from coding IMF policy advice to individual borrowers was aggregated across each sample set. (A figure of 1.00 indicates a specific policy preference was recommended to borrowers by IMF staff in 100 percent of the cases in that sample, a figure of 0.50 indicates a policy preference was recommended in 50 percent of cases, and so on.)

The four sample sets incorporate all new stand–by arrangements that were negotiated during IMF financial years ending 1986/1987, 1996/1997, 2009/2010, and 2011/2012 (see Table 3 for the list of countries in each sample period). Each sample incorporates significant variation in borrower types. Borrowers range from states that had recently joined the IMF to long–standing members, as well as states that were infrequent borrowers, those which negotiated precautionary stand–by arrangements under which no actual funds were drawn, and those which repeatedly borrowed from the IMF under back–to–back loan arrangements.

Because different IMF lending arrangements incorporate varying terms of eligibility and loan duration, the sample sets only include new stand-by arrangement loans in order to improve consistency in analyzing the IMF's policy advice across borrowers. This excludes, for example, the negotiation of IMF loans during the Eurozone crisis for Ireland (2010-13) and Portugal (2011-14) under the Extended Fund Facility, which is specifically designed to address structural reforms

through longer-term engagement in comparison with stand-by arrangements (IMF 2013a). The selection of the sample sets from the 1980s and 1990s deliberately excludes financial years when the IMF was engaged with lending to countries that faced crises with systemic implications, such as loans negotiated in the initial stages of the 1980s Latin American debt crisis, the early period of the post-communist transition, the 1995 Mexican *peso* crisis, or the 1997-8 Asian financial crisis. Excluding such loan requests reduces the probability that the IMF's policy dialogue with borrowers deviated from its policy preferences due to major shareholder interference – or that the organization extended countries preferential treatment – driven by systemic risk considerations (Pop–Eleches 2009b; Stone 2008). Focusing on loan arrangements in the 1980s and 1990s when the organization was not responding to systemic financial crises helps to establish clear benchmarks for a comparison between earlier IMF policy recommendations and contemporary IMF policy advice to borrowers.

Continuity and Change in IMF Policy Advice to Borrowers

In some respects the IMF's role during the Great Recession marks a definitive break with its previous role in crisis episodes over the last three decades. In flagship policy areas the organization has adopted fundamentally different positions in comparison with its policy advice during the 2001 Argentine debt crisis, the 1997-8 Asian financial crisis, the 1995 Mexican *peso* crisis, and the crises associated with the post–communist transition in the early 1990s. In particular, the IMF has exhibited greater tolerance for the use of temporary controls on capital outflows for borrowers in extreme financial distress (Gallagher, this issue; Grabel 2011). Accepting the use of capital controls by borrowers such as Iceland in 2008 and Cyprus in 2013 represents a significant move away from the IMF's championing of capital account liberalization as a global policy norm during the 1990s (Leiteritz and Moschella 2010; Moschella 2010; Gallagher, this issue).

Despite the IMF's greater acceptance of the temporary use of capital controls by borrowers facing a high risk of capital flight, the existing literature remains divided over the extent to which changes in IMF conditionality since the onset of the Great Recession substantiate a transformational shift in the organization's policy paradigm (Grabel 2011; Joyce 2012; Lütz and Kranke 2013; Presbitero and Zazzaro 2012). The IMF has reformed its loan programs and how conditionality is applied for borrowers with strong macroeconomic policy track records. This has included a shift from *ex post* to *ex ante* conditionality through flexible credit line arrangements, which are geared towards precautionary lending for emerging market economies (Joyce 2012; Broome 2010a). The proliferation of different lending arrangements that countries can access based on their level of economic development and the type of economic challenges they face has institutionalized the principle of differential treatment based on borrowers' resource needs and repayment abilities (IMF 2013b). This has expanded the potential for programs to be tailored to local economic circumstances without attracting charges of IMF favouritism (Broome 2010a; Clegg 2012). There is nonetheless a thin line between differential treatment based on borrowers' resource needs, and preferential treatment based on their systemic importance (Pop–Eleches 2009).

[TABLE 4 ABOUT HERE]

The changes introduced to how the IMF applies loan conditionality since the start of the Great Recession leave unresolved the question of whether the organization has undergone a shift in its policy paradigm, or whether the threshold for a select group of emerging market economies to access large precautionary IMF loans has simply been lowered. Qualitative content analysis of the IMF's policy advice to national authorities during the negotiation of 93 stand–by arrangement loans over the last three decades indicates high levels of continuity across some policy areas and variance across others. The reduced data results, summarized in Table 4, suggest

the IMF's policy preferences have remained most consistent from the mid–1980s to the late–2000s with respect to the priority placed on fiscal consolidation for distressed economies. IMF staff do not share a uniform view that fiscal restraint is a 'one-size-fits-all' good practice for all countries regardless of the economic circumstances they face (see Ban, this issue). In response to the severe fiscal difficulties that countries are usually undergoing when they turn the IMF for emergency external financing, however, the IMF leans strongly towards prioritizing the reestablishment of sound public finances through fiscal austerity measures. This is illustrated by the high degree of consistency in the IMF's policy advice across three policy areas: (1) pro–cyclical fiscal discipline; (2) the reallocation of public spending from sector subsidies towards targeted spending on health, education, and infrastructural investment; and (3) addressing revenue shortfalls through broadening the tax system, in particular the expansion of indirect taxation on consumption. IMF staff recommended each of these policy preferences to national authorities in over three-quarters of loan program discussions during 2008-10 and 2010-12.

A fourth policy preference – civil service retrenchment – also featured with a consistently high level of frequency across three out of the four sample sets (79 percent in 1985-7 and 1995-7, and 86 percent in 2010-12). Compared with the frequency of IMF policy advice during the mid-1980s and the mid-1900s, the data results indicate that the IMF placed far less emphasis during the Great Recession on: (1) interest rate liberalization; (2) the liberalization of trade restrictions; and (3) the privatization of public enterprises, assets, and services. The frequency of IMF policy advice for the liberalization of trade and interest rates and for privatization decreased sharply in 2008-10 and 2010-12 compared with the earlier sample sets. Meanwhile, the frequency of IMF staff recommendations for exchange rate liberalization remained constant during 1985-7, 1995-7, and 2008-10, before decreasing in the smaller 2010-12 sample set.

Taken at face value, these shifts in the content of IMF staff advice to national authorities over the last three decades are unsurprising. Borrowers may have internalized the IMF's policy preferences through embedding earlier IMF-sponsored policy reforms in their domestic institutional structures (Ban 2012; Broome 2010b; Pop–Eleches 2009a). In the case of post–communist countries, for example, interest rate controls, directed credit practices, and public shareholdings of enterprises were reduced or eliminated in the majority of countries over the course of the 1990s. Many countries during the 1990s and early 2000s reduced trade tariffs and non–tariff barriers to conform to WTO accession criteria, while some countries liberalized their domestic markets in order to gain EU membership. Privatized assets are expensive for future governments to renationalize, and regulatory controls on interest rates and trade are difficult for governments to reintroduce because greater international economic integration amplifies the potential costs associated with tightening national economic barriers (see Garrett 1998).

These factors point towards an exogenous explanation for variance in the IMF's policy advice to borrowers over the last three decades. For countries that implemented the IMF's earlier recommendations, less–frequent advice from the IMF in these areas during the Great Recession may indicate that reforms enacted during the 1980s and 1990s were maintained, rather than suggesting a change in the IMF's policy preferences. In short, governments do not require further persuasion to pursue economic liberalization once the IMF's preferences for structural economic reforms are locked-in within a country's institutional and policymaking environment (Pierson 1993).

Structural reforms such as the privatization of public enterprises and the liberalization of interest rates, exchange rate regimes, and trade restrictions are harder to reverse compared with the introduction of new tax exemptions and tax cuts, sector subsidies, expansion of the public sector payroll, and increased public spending. Loose fiscal policy offers governments the prospect of immediate political rewards, and can potentially be implemented without generating adverse market

reactions, public opposition, or entrenched bureaucratic resistance, at least in the short–term. As a consequence, variance in IMF policy advice to borrowers over the last three decades in part reflects the degree to which its structural reform preferences have become embedded within the domestic institutional infrastructure of countries that underwent earlier IMF loan programs.

An endogenous explanation for the narrowing of the IMF's policy advice to borrowers would point towards the IMF's internal rethink of its core policy priorities in the aftermath of the Asian financial crisis in 1997-98. This is consistent with the conclusions of high–profile reviews of IMF lending practices, such as a 2003 report by the IMF's Independent Evaluation Office which recommended that '*a crisis should not be used as an opportunity to force long–outstanding reforms… in areas that are not critical to the resolution of the crisis*' (IEO 2003: 53, emphasis in original). Following the Asian financial crisis some of the external criticisms levelled against the IMF for imposing 'excessive conditionality' on borrowers began to resonate more strongly among IMF staff, as well as among both developed and developing country Executive Directors on the Executive Board (Best 2012: 684). This prompted the IMF's management to launch a 'streamlining initiative' in 2000, which aimed to establish principles for narrowing the application of structural reform conditionality (IEO 2007: 15).

Growing concerns about the expansion of conditionality among IMF staff, management, and member states resulted in changes to conditionality guidelines in 2002. These reforms sought to limit the breadth of conditionality and to reduce some of the discretion available to IMF staff to determine how borrower performance is evaluated through program reviews (Best 2012: 684-5). In practice, however, there is scant evidence that the application of IMF conditionality reduced during the 2000s before the start of the Great Recession. A 2007 report on IMF conditionality by the Independent Evaluation Office concluded that over the period from 1995 to 2004 the 'number of structural conditions in Fund programs remained stable... contrary to expectations when the streamlining initiative was launched [in 2000]'. As a

consequence, the practice of IMF conditionality continued to be 'widely criticized as intruding in the policymaking process', at the same time as borrowers only achieved compliance with around half of their structural reform conditions on schedule (IEO 2007: 19).

Changes in the scope of IMF policy advice from 1995-7 to 2008-12 nonetheless mirror concurrent shifts in the scope of IMF conditionality. While attempts to reform the IMF's application of loan conditionality during the 2000s failed to result in a decrease in the number of conditions attached to IMF loan programs, it did impact upon the composition of conditionality. Both internal staff reports and a review by the Independent Evaluation Office show that the composition of conditionality shifted towards the policy areas that were seen as comprising the IMF's core priorities. This entailed a stronger focus on tax policy, public expenditure, and financial sector management (see Seabrooke and Nilsson, this issue), with fewer structural reform conditions linked to privatization and trade liberalization (IMF 2005; IEO 2007). Moreover, in 2009 the IMF announced the discontinuation of structural performance criteria in all non-concessional loan programs, with structural reforms now monitored through loan program reviews (IMF 2009c).

As the IMF's official historian James M. Boughton (2012: 898) has observed, the IMF spent most of the 2000s 'trying to cut back on the depth and breadth of its role in policy formation in borrowing countries'. This 'back to 'basics' strategy in IMF policy advice is illustrated in the three right-hand columns in Table 4, which combine the results from sample sets 3 and 4 to show the aggregate frequency of the organization's policy advice across stand-by arrangement borrowers during 2008-12. Corroborating the existing evidence on changes in the composition of IMF conditionality, the data shows a significant decrease in the frequency with which IMF staff recommended borrowers introduce trade liberalization and privatization structural reforms during the 2008-12 period compared with IMF policy advice during the mid-1980s and mid-1990s.

During the Great Recession the IMF claimed its policy advice and loan program objectives were 'tailored to country–specific circumstances' with loan conditions designed on the basis of countries' initial conditions and incorporating fewer structural reform conditions than previous crisis lending (IMF 2009b: 13, 20). The evidence partly bears out these claims that the IMF is now less likely to recommend an expansive range of 'one-size-fits-all' structural economic reforms across different types of borrowers. Less-frequent advice from IMF staff for borrowers to reduce the public sector payroll and privatize public enterprises or contract out the delivery of public services in the late 2000s is notable because both policy options can potentially help to stabilize a country's public finances through generating revenue or reducing expenditure. The sample set from 2010–2012 indicates there has been a renewed emphasis by the IMF on civil service downsizing for borrowers, especially in the case of EU members (see the right-hand column in Table 4). This may reflect the different challenges borrowers faced in 2008–2010 from private–sector debt crises, which by 2010–2012 had transformed in many countries into public–sector debt crises. It also reflects the difficulties involved with negotiating with 'third party' institutional actors within the EU (Broome 2013), and in particular the influential role of the European Commission in shaping the design of IMF loan programs for EU members (Lütz and Kranke 2013).

Both endogenous factors (organizational changes within the IMF) and exogenous factors (domestic lock-in of structural reforms) are likely to have played a role in changing the scope of IMF policy advice to borrowers during the Great Recession. The qualitative content analysis of policy dialogue indicators over the four time periods examined here suggests that the IMF has narrowed the scope of its contemporary advice for borrowers to tax and spending policies oriented towards fiscal consolidation (see Ban, this issue; see also Clegg 2014), rather than promoting the broader structural reforms that were closely associated with IMF programs during the 1980s and 1990s. The evidence is not consistent with the proposition that the Washington consensus policy paradigm continues to drive the IMF's policy

advice to borrowing countries across–the–board, while domestic lock-in effects are unlikely to fully explain the changes in the composition of IMF policy advice over the course of the last three decades.

The narrowing of IMF policy advice during the Great Recession mirrors the narrowing of structural reform loan conditionality over the 2000s. New IMF stand-by arrangements dropped to two in FY2007 and three in FY2008 immediately prior to the financial crash (IMF 2009d: 1). Due to the decline in requests for stand-by arrangements from 2004-2008 it is difficult to establish the extent to which the Great Recession had an independent causal impact on the composition of IMF policy advice for borrowers, or whether the observed changes in policy advice resulted from earlier reforms such as the 2000 'streamlining initiative'. Rather than suggesting the organization has undergone a paradigm shift, however, this may instead indicate that the IMF has simply refocused on promoting its core policy priorities.

Conclusion

The scope of the IMF's policy advice to borrowing states matters for the design of loan conditionality, the subsequent evaluation of policy compliance, and future access to IMF resources. This article has analyzed the composition of the policy advice provided by IMF staff to national authorities across four sample sets of borrowers from 1985–87, 1995–97, 2008–10, and 2010–12. Based on qualitative content analysis of policy dialogue indicators in 93 IMF staff reports on country requests for stand-by arrangements, the evidence suggests the scope of the IMF's policy advice during the Great Recession narrowed in comparison to its advice during the heyday of the Washington consensus in the 1980s and 1990s. Rather than promoting one-size-fits-all structural reforms for borrowers facing different economic challenges, the IMF has shifted 'back to basics' with a narrower focus on the promotion of fiscal consolidation.

These changes in the composition of the IMF's policy advice do not (yet) indicate a broader shift in the organization's policy paradigm. IMF staff recommendations to borrowers continue to reflect a paradigm that is centred on achieving economic stabilization through the compression of domestic demand, while there is little evidence that the IMF has reduced its general support for international economic integration and market-based processes of allocating economic resources, notwithstanding its pragmatic acceptance of the use of temporary capital controls by some borrowers. What these changes more clearly indicate is that the IMF has adopted a 'core business' strategy, in which the principal difference between the scope of the organization's earlier policy advice to borrowers and its advice during the Great Recession is located in a more restricted policy coverage, rather than an expanded range of policy alternatives.

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TABLE 1. IMF Policy Preferences and Loan Programs

LEVEL OF ARTICULATION	ANALYTIC CATEGORY	PROGRAM COMPONENTS	PRACTICAL EXAMPLES
Macro–level	Policy paradigms	Cognitive assumptions	Policy models
Meso–level	Policy advice	Discursive parameters	Policy recommendations
Micro–level	Loan conditions	Contractual obligations	Performance criteria

TABLE 2. IMF Policy Dialogue Indicators

POLICY PREFERENCES	STAFF RECOMMENDATIONS
1. Fiscal restraint	▪ Reduction in fiscal deficit relative to GDP ▪ Reduction in the volume of public expenditure
2. Reallocation of spending	▪ Reallocation of spending from subsidies towards healthcare, education, and infrastructure investment ▪ Reduction or elimination of sector subsidies to agriculture, banking, energy, defense, or manufacturing
3. Broadening the tax base	▪ Introduction of new taxes or elimination of tax exemptions ▪ Increase in income or consumption tax rates ▪ Lowering of tax thresholds
4. Interest rate liberalization	▪ Increased use of central bank credit auctions ▪ Establishment of positive real interest rates ▪ Shift to market–determined interest rates
5. Exchange rate liberalization	▪ Unification of exchange rates and elimination of exchange restrictions ▪ Less exchange rate intervention ▪ Shift to market–determined exchange rate regime
6. Liberalization of trade restrictions	▪ Elimination or reduction of trade tariffs and import surcharges ▪ Elimination of non–tariff trade barriers including quotas, licences, subsidies, and import/export bans
7. Privatization	▪ Divestiture of public enterprises or reduction in government shareholding ▪ Contracting out service–delivery functions to private firms
8. Civil service downsizing	▪ Reduction or freezing of number of civil service employees ▪ Reduction or freezing of civil service salaries ▪ Reduction or elimination of civil service benefits and pensions

TABLE 3. IMF Stand–by Arrangement Sample Sets

SAMPLE 1 n = 39		SAMPLE 2 n = 29		SAMPLE 3 n = 18		SAMPLE 4 n = 7	
1985–6	1986–7	1995–6	1996–7	2008–9	2009–10	2010–11	2011–12
Bangladesh	Bolivia	Argentina	Bulgaria	Armenia	Angola	Antigua and Barbuda	Kosovo
Central African Republic	Burundi	Armenia	Egypt	Belarus	Bosnia and Herzegovina	Greece	Serbia
Côte d'Ivoire	China	Azerbaijan	El Salvador	Georgia	Dominican Republic	Romania	St. Kitts and Nevis
Equatorial Guinea	Congo	Belarus	Estonia	Hungary	Jamaica	Ukraine	
Guinea	Côte d'Ivoire	Cameroon	Latvia	Iceland	Maldives		
Jamaica	Ecuador	Costa Rica	Lesotho	Latvia	Romania		
Korea	Gabon	Djibouti	Romania	Mongolia	Serbia		
Mali	The Gambia	El Salvador	Tajikistan	Pakistan	Seychelles		
Mauritania	Ghana	Georgia	Ukraine	Ukraine	Sri Lanka		
Morocco	Jamaica	Hungary	Venezuela				
Nepal	Madagascar	Kazakhstan					
Niger	Mexico	Lesotho					
Panama	Morocco	FYRM*					
Thailand	Niger	Pakistan					
Togo	Nigeria	Panama					
Uruguay	Philippines	PNG**					
Yugoslavia	Senegal	Uruguay					
Zambia	Sierra Leone	Uzbekistan					
	Tanzania	Yemen					
	Togo						
	Tunisia						

Notes: Sample sets include all countries requesting new Stand-by Arrangement loans; requests for other IMF loan arrangements are excluded.
* Former Yugoslav Republic of Macedonia. ** Papua New Guinea.

TABLE 4. IMF Policy Advice to Countries Requesting Stand–By Arrangements (SBAs)

POLICY DIALOGUE INDICATORS	1985–7 n = 39	1995–7 n = 29	2008–10 n = 18	2010–12 n = 7	2008–12* n = 25 (all)	2008–12** n = 20 (non-EU)	2008–12*** n = 5 (EU)
Fiscal restraint	0.95	1.00	0.94	1.00	0.96	0.95	1.00
Reallocation of spending	0.85	0.86	0.83	0.86	0.84	0.90	0.60
Broadening the tax base	0.92	0.97	0.83	1.00	0.88	0.90	0.80
Interest rate liberalization	0.64	0.76	0.33	0.14	0.28	0.35	0.00
Exchange rate liberalization	0.62	0.62	0.61	0.14	0.48	0.60	0.00
Liberalization of trade restrictions	0.85	0.90	0.28	0.00	0.20	0.25	0.00
Privatization	0.69	0.93	0.56	0.43	0.52	0.55	0.40
Downsizing the civil service	0.79	0.79	0.44	0.86	0.56	0.50	0.80

Source: Author's analysis of IMF staff reports on requests for stand-by arrangements (n = 93).

Notes: * SBA loans to all countries in 2008–12 (n = 25). ** SBA loans to non-EU countries in 2008–12 (n = 20). *** SBA loans to EU countries in 2008–12 (n = 5).