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Resolving the International Monetary Fund's Legitimacy Crisis

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Resolving the International Monetary Fund's Legitimacy Crisis ©Leonard Seabrooke

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Abstract

Since the Asian financial crisis of 1997-1998 the International Monetary Fund (the Fund) has been embroiled in an international crisis of legitimacy. Assertions of a crisis are premised on the notions that the Fund's voting system is unfair, and that the Fund enforces homogenous policies onto borrowing member states and that loan programs tend to fail. Seen this way, poor institutional and policy design has led to a loss of legitimacy. But institutionalised inequalities or policy failure is not in itself sufficient to constitute an international crisis of legitimacy. This article provides a conceptually-driven discussion of the sources of the Fund's international crisis of legitimacy by investigating how its formal 'foreground' institutional relations with its member states have become strained, and how informal 'background' political and economic relationships are expanding in a way that the Fund will find difficult to re-legitimate. The difference between the Fund's claims to legitimacy and how its member states, especially borrowers, act has led to the creation of a 'legitimacy gap' that is difficult to close. However, identifying the sources of the Fund's international crisis of legitimacy allows us to explore what avenues are available to resolve the crisis.

Introduction[1]

The International Monetary Fund (the Fund) acknowledges that it currently has an international crisis of legitimacy. Rodrigo de Rato, the Fund's Managing Director, has publicly stated that the IMF's legitimacy is suffering from a combination of formal institutional constraints and, more broadly, from how its policies are perceived by international and world society (de Rato, 2006, 131-132). Institutionally, the Fund is criticized for a voting system that heavily favours Western states, and especially the US. Operationally, the Fund's success rate in reforming borrowing member states is hardly exemplary. Its attempts to expand its policy area to include 'softer' social issues, such as social development programs, have been met with external suspicion and internal fighting over what exactly the Fund's purpose should be (Vetterlein, 2006a). Within policy and scholarly circles, the Fund is heavily criticized for imposing excessively homogenous policies on borrowing states; a homogeneity that is tantamount to a new 'standard of civilization' that reflects the dictates of a 'Wall Street-Treasury-IMF Complex' (Best, 2006; Wade and Veneroso, 1998).

Within this Special Issue, an international crisis of legitimacy is defined as a 'critical turning point when decline in an actor's or institution's legitimacy forces adaptation (through re-legitimation or material inducement) or disempowerment' (Reus-Smit, Introduction). If we look for a moment in which the Fund's international crisis of legitimacy can be pinpointed, then we would be hard pressed to look beyond the Asian financial crisis of 1997-8. The Fund, as its own independent policy review arm has stated (Independent Evaluation Office, 2003b), did misdiagnose the crisis and recommended policy reforms inappropriate for states facing a liquidity problem, rather than an export earnings problem (the difference between a current account and a capital account crisis). Furthermore, since the late-1990s the Fund has been reviewing the

appropriateness of its own reform programs, particularly the need to address social issues (Vetterlein, 2006a, 137; see also Thirkell-White, 2004). The Fund's recent acknowledgement of its need to address its legitimacy problems (de Rato, 2006, 131-132, and discussed below) confirms that the perception of an international crisis of legitimacy is shared not only by the Fund's member states, non-governmental organizations, and other groups in world civil society, but also by the Fund. As I discuss below, this is a crisis that the Fund now seeks to resolve through formal institutional reforms and an informal expansion of its social constituency of legitimation.

Most of the literature criticizing the Fund focuses on policy homogeneity, more commonly described as a 'one-size-fits-all' approach to economic policy reform. Increasingly in the last decade, the Fund has produced starkly similar policies for different economies on the grounds that one of its key functions, beyond surveillance (see Broome and Seabrooke, 2006), is to create 'world's best practice' in economic policy. There are good formal legitimacy and efficiency reasons to consider why the Fund *should* treat different states in a similar fashion. More importantly, however, alongside the Fund's stress on its capacity to provide 'world's best practice', economic advice is an emergent discourse that stresses the absence of 'political will' in borrowing member states to implement loan conditions (Independent Evaluation Office, 2003a, 30; Bird, 2003, 94-95). Rather than engaging politics head-on to solve what the Fund itself perceives as a political problem, the Fund is attempting to marry a new moralizing discourse with technocratic expertise (Best, 2005). Such an attitude does not foster deliberation with a common language that both borrowing member states and the Fund can agree.

This article assesses longer term trends in how the Fund has lost legitimacy with its member states, especially borrowing member states, and how the Fund can resolve its current crisis. I seek to understand the source of the Fund's current international crisis of legitimacy by pulling apart the formal 'foreground' and informal 'background' aspects of the institutional and social relationship between the Fund and member states, especially borrowing member states. In doing so, I argue that the legitimacy of a system of power must be understood not only through the expression of beliefs, but also expressive practices (see also Seabrooke, 2007). I argue that we can understand the Fund's current crisis of international legitimacy through the growth of a 'legitimacy gap', understood as: the space between *claims* to the fairness and rightfulness of policy actions by those who seek to govern, and the conferral of legitimacy on these claims through *belief-driven acts* by those being governed (such as policy implementation). The content of a legitimacy gap has both 'foreground' and 'background' aspects, which I explicate below.

Closely linked to the idea of a legitimacy gap forming between claims made by the Fund and how its member states, and those people it has an impact upon, act is what I refer to as an associational 'template' for 'IMF Friendly' policy reforms (see also Broome and Seabrooke, 2006). Templates are how the Fund frames its claim to the legitimacy of proposed policy reforms. As such, templates are used to legitimate claims to policy reforms by presenting reforms as part universal (for all states, thereby treating all members as equals) and in part customized for an associational context (regional or like-grouping, thereby increasing the likelihood that

a member state's government and/or population will view the reforms as appropriate for them). In the introduction to this Special Issue, Chris Reus-Smit argues that an institution commands legitimacy to the extent that there is 'a generalized perception that its normative precepts are rightful'. In the case of the Fund, associational templates worked well because they provided a clear frame ('Asian', 'OECD', etc.) through which the Fund could make comparisons with like-groups to claim that reforms were appropriate. I suggest, drawing upon a larger study (Seabrooke, 2006d),[2] that the use of associational templates within the Fund has declined, with greater stress being placed on universal 'world's best practice' policies. Such universal claims to legitimacy are hard to sustain because they have little traction in a domestic context. This has then led the Fund to resort to strategies centred on securing a state's 'ownership' of its reform policies, as well as the reestablishment of explicit global standards of conduct (Best, 2006; Bowden and Seabrooke, 2006).

The article proceeds as follows: i) a discussion of the sources of the Fund's international crisis of legitimacy, outlining both 'foreground' and 'background' factors; ii) the proposal of a 'legitimacy gap' between claims and conferrals on Fund reforms discussed alongside a conception of 'associational templates'; iii) a discussion of how the Fund plans to address its international crisis of legitimacy; and iv) a conclusion that explores how the Fund may best resolve its international crisis of legitimacy. Together, these sections seek to outline the Fund's international crisis of legitimacy (the problem), how legitimation works in practice (the process) and the means, correct or otherwise, for solving the problem (resolutions).

Sources of the Fund's International Crisis of Legitimacy

The Fund's current international crisis of legitimacy is primarily a consequence of how it relates to its member states, especially borrowing member states. Changes in the formal 'foreground' and more informal 'background' relations between the Fund and its member states have contributed to the Fund's international crisis of legitimacy (on foreground and background see Campbell and Pedersen, 1996). Key here is a combination of formal institutional impediments alongside the broadening of its practices, informal agenda, and purpose. To use a narrow interpretation of Ian Clark's (2005) language on legitimacy in international society, the Fund now violates the principles that undergird its *rightful membership* and *rightful conduct* as an actor within international society, as well as the principles that allow the Fund to act as an arena for a society of states. Moreover, following Chris Reus-Smit's framework in the introductory essay to this Special Issue, the Fund has expanded its *realm of political action* and its *social constituency for legitimation*, but not in accordance with one another.

Pulling apart the 'foreground' and 'background' dimensions of how the Fund's relationship with its member states has changed provides a deeper understanding of its current problems. To do so I offer four types of legitimation for the Fund in Table 1.1 below. In the foreground are the official institutionalised relationships between the Fund and its member states — the formal rules within a society of states. Here the Fund's *claims* to legitimacy relate primarily to *rightful membership*, and the common retort from member states is to point to the role of power politicking in the Fund's decision-making processes. Foreground legitimacy claims

are also evaluated in relation to how the Fund *acts* within international society with regard to its member states, to the Fund's *rightful conduct* in performing its main duties of surveillance, lending, and economic reform programs.

Table 1.1: Four Types of Legitimation for Actors in International Society

	Foreground	***Background***
Claims	Rightful membership	Social Constituency of Legitimation
Acts	Rightful conduct	Realm of Political Action

The background includes the more diffuse social impact of actions taken by the Fund. While the foreground is explicitly political in how the Fund relates to member states, the background includes the impact of Fund policies on economies and societies — which I view as political acts — as well as the creation of broader intersubjective understanding within which claims to legitimacy must ultimately be evaluated. Thus while the foreground aspects are the formal design, procedures, and decision-making processes, the background represent the more 'everyday' ongoing relationships between those who implement Fund policies 'on the ground' and those the policies seeks to govern (Hobson and Seabrooke, 2007). Accordingly, the Fund's *realm of political action* is not only its rightful conduct with member states, but how the Fund *acts* in shaping what is politically and economically possible within states, including, of course, how Fund policies affect citizens within borrowing member states. As the Fund now operates in a range of economic and social policy areas not within the ambit of its original Articles of Agreement, its realm of political action clearly extends beyond what rightful conduct permits. The Fund's acts clearly reverberate through societies and generate attitudes that then have an impact on formal economic program success. As such, the Fund's *claims* to legitimacy are made within a much broader context than its rightful membership permits. The Fund's view of its *social constituency of legitimation* has recently placed stress on 'political will' and 'ownership' within borrowing states' governments and, most recently (and discussed below), their populations (Boughton, 2003). In this issue Chris Reus-Smit argues that 'the question of which constituency an actor must establish legitimacy in can only be answered with reference to the political realm in which he or she seeks to act' (Introduction). The Fund is now attempting to expand its social constituency of legitimation to meet with its increasing recognition of its realm of political action. I argue that it is doing so in ways that are wrongheaded. Importantly, for the Fund to resolve its international crisis of legitimacy, it must have all four types singing in unison. In general, the story here is that on both claims and acts, and foreground and background, these four aspects of the Fund's legitimation have become increasingly distanced from one another.

Most of the debate concerning the Fund's international crisis of legitimacy concentrates on the foreground aspects described above. A brief summary of the dominant arguments in the field will help us establish how we can identify a 'legitimacy gap', as well as how the Fund can address its background legitimacy problems. Within the work on the Fund, rightful membership and rightful conduct are typically conceptualized in two

ways: that the Fund provides *an institutional arena for a society of states*, and that the Fund is *an actor operating within a society of states*. Scholars focus on how membership arrangements within the Fund, such as voting rights in the determination of Fund decisions, are weakening its legitimacy in international society. Similarly, on conduct, scholars focus on how the Fund's conduct in loan programs, especially the determination of loan conditions, weakens its legitimacy as an actor within international society. I weave between both views of membership and conduct here, realizing that this provides a spin on Clark's (2005) original conceptual framework.

On rightful membership a host of scholars point out how the Fund's institutional structure predisposes it to the whims of the international political economy's most powerful states, especially the US. A number of scholars have argued that a borrowing state's 'political proximity' to US national interest increases the likelihood of increased leniency on loan conditions (Thacker, 1999; Stone, 2002). Bessma Momani's (2004) work, for example, provides a clear demonstration of how US representatives on the Fund Executive Board have flexed their muscles to acquire 'softer' loan conditions for preferred allies. Much attention has been given to the determination of voting rights within the Fund, which formally reflect subscription quotas to Fund general resources. The key complaint here is that the Fund's rightful membership regulations provide the US with 17.1 percent of the vote, while a 'special decision' within the Fund (such as approving an extraordinarily large loan for a state embroiled in a financial crisis) requires 85 percent of votes. The US therefore has a clear veto, which it has used on a number of occasions due to US domestic political fights over the legitimacy of 'bailing-out' states in a financial crisis (Leaver and Seabrooke, 2000). The US, of course, also has allies. Rapkin and Strand (1997) argue that US voting power, if you include its direct allies, is actually 62.3 percent. Unsurprisingly, the Fund is often criticized as a puppet for US interests.

Recent innovative work on the Fund reveals the extent to which member states cluster into groups to gain influence on Fund decision-making procedures. Within the Fund's Board of Directors, the US, Japan, Germany, France, and the UK have their own representatives. China, Russia, and Saudi Arabia also have their own seat (Woods and Lombardi, 2006, 482). For the rest of the member states, clusters have formed around regional groups and like-states (Woods and Lombardi, 2006, 489). Such clustering reflects the extent of politicking within the Fund, and the extent to which Western states have an ongoing desire to influence its policies — despite the fact that no Western state has borrowed from the Fund since 1976. At present the G7 states comprise 47 percent of the votes within the Fund. If we look at the top 24 industrial states in the world economy then this figure increases to 60.3 percent, while 22 emerging market states hold 20.4 percent and the remaining 138 developing states 19.3 percent of Fund votes (Truman, 2006, 528). The key consideration associated with voting rights within the Fund is not the influence on actual voting behaviour within the organization, since actual voting is not common. Rather, as commented by Lou Pauly, voting rights strongly influence what is 'thinkable' within the Fund in terms of policy design and political considerations (1997, 113).

Debate over the Fund's formal rules of membership has suggested that despite sovereign equality among member states, the Fund has produced a new 'standard of civilization' that implicitly ranks states (Hall, 2003;

Best, 2006). The Fund's considerations on the distance between rightful membership and who should be considered part of its real constituency are related to how the Fund's practices have changed during the past twenty years. Here rightful conduct is related to how the Fund treats its member states, while more informal changes have expanded the Fund's realm of political action.

It is important to recognize that the Fund's rightful conduct has transformed in large part due to changes within the world economy since the 1970s. Certainly the Fund today is dealing with an international political economy that is radically different from when it came into existence in 1945. Particularly important here is the Fund's 'silent revolution', from the late 1970s to the late 1980s, which entailed a change from dealing primarily with system management for Western industrialized states to dealing with crisis management for developing states (Boughton, 2001). This process was in large part a consequence of changing practices in the world economy, especially the increased role of private capital following the collapse of the Bretton Woods system and, in the 1980s, the rapid rise of financial disintermediation and securitization. These processes, most prominent in the US, led to a rapid expansion of global debt within the international financial order and a clear move away from traditional bank lending (Seabrooke, 2001). Designed to deal with the management of national finances in a bank-driven credit system within a fixed exchange rate monetary system, this essentially left the Fund in an environment where developed states no longer needed Fund credit, and where developing states have had increased access to private capital markets.

Importantly, these changes in the world economy left the Fund dealing with enormous currency and liquidity crises with a comparatively much reduced funding base (Bordo and James, 2000). As a consequence, during the 1980s and 1990s the Fund's role became that of a crisis manager, especially in Latin America and Eastern Europe (Pauly, 1997, 125-126). Given such changes, the Fund has also had to seek financial support from private 'supplementary financiers' who can provide capital for loans, but who require increased loan conditions (Gould, 2003). Furthermore, the financing of the Fund's own administrative expenses dramatically changed between 1980 and 2000, with 'creditor' member states reducing their contribution from 72 to 29 percent of required financing, while 'debtor' states have increased their contribution from 28 to 71 percent (Woods and Lombardi, 2006, 498).

As a consequence of the above dynamics, in the 1990s the Fund found itself with an increased clientele who had either not substantially grown economically following Fund reform programs, or were so crippled by external debt to make the prospect of economic reform exceedingly difficult. As a consequence it developed, with the World Bank, the Heavily Indebted Poor Countries (HIPCs) initiative in 1996 and, following the Asian crisis, an independent review of the Enhanced Structural Adjustment Facility (ESAF) found that there were was a clear lack of ownership, protection of the poor, and problems related to the division of labour among international organizations (namely the World Bank, see Vetterlein, 2006b, chapter 3). In response to these criticisms, the Fund developed, with the World Bank, 'poverty reduction strategy papers' (PRSP), which have also led to the development of the Poverty Reduction and Growth Facility (PRGF) that places stress on social development, poverty alleviation, and managing social risk (Vetterlein, 2006b; see also Broome,

2006). The PRGF itself has created internal dissent, with some staff claiming that it was 'simply not a legitimate part of the Fund's mandate to become directly involved in issues of poverty and economic growth' (Bird, 2001, 830). These changes have led to further criticisms concerning 'mission creep' — that the Fund's practices extend far beyond its rightful conduct and provide it with a new realm of political action in which it has little accountability (Woods, 2001).

The Fund's rightful conduct and realm of political action can also viewed by how it designs economic reform programs and their success. Indeed, most of the work on the Fund's problems, including its waning legitimacy, concentrates on reform program failures. Earlier work here pointed to how the Fund's structural adjustment packages of the 1980s created negative outcomes (Bienen and Gersovitz, 1985), while more recent literature stresses how loan conditionality has become too homogenous and insensitive to differences within borrowing states (notably Stiglitz, 2002). Here the Fund is commonly seen as pursuing 'neoliberal' economic reforms that come with an extremely high social cost (Taylor, 2004).

The body of evidence on the Fund's success in the implementation of reform programs is extensive. Scholars have demonstrated that economic growth during a loan program is more likely to drop rather than increase (Przeworski and Vreeland, 2000), and that there are often lower growth rates after the loan period. Others have pointed to how Fund programs are strongly associated with heightened income inequality (Garuda, 2000). On compliance with the Fund's policy conditions, it has also been suggested that, even when conditions are met, the wheels fall off afterwards (Evrensel, 2002).

The Fund's reform program failures have led it increasingly to rely on pressure to produce positive results. While loan conditionality is the most obvious aspect here, an important change is the Fund's new discourse on the need for borrowing member states to publicly demonstrate 'ownership' and 'transparency' (Best, 2005). Even the Fund's formation of the Independent Evaluation Office (IEO) in 2001 was an explicit recognition of the Fund's post-Asian financial crisis need to deal with rightful membership and rightful conduct problems by scrutinizing itself, or 'leading by example' on transparency and accountability (Independent Evaluation Office, 2003b). This move can be seen as an institutional change to reconfigure its identity, role, and purpose to address its international crisis of legitimacy. It also recognizes the extent of the Fund's realm of political action, as well as an attempt to reconfigure what it considers as its social constituency of legitimation. I return to this point below.

Legitimacy Gaps and Associational Templates

To conceptualise how the problems associated with the Fund's international crisis of legitimacy relate to the process of legitimation, it may be useful to consider a 'legitimacy gap'. Here the claims to legitimacy made by the Fund are conferred or rejected by the expressive practices of those being governed, with the result widening or narrowing the gap between claims and acts. The power relationships, both direct and diffuse (Barnett and Duvall, 2005), that inform conferral or rejection relate to concerns of rightful membership, rightful conduct, the realm of political action, and the social constituency of legitimation discussed above. To

be more precise, a legitimacy gap is understood as the space between *claims* to the fairness and rightfulness of policy actions by those who seek to govern, and the conferral of these claims through *belief-driven acts* of policy implementation by those being governed.[3]

Figure 1: Reform Program Feasibility Curve with Legitimacy Gap

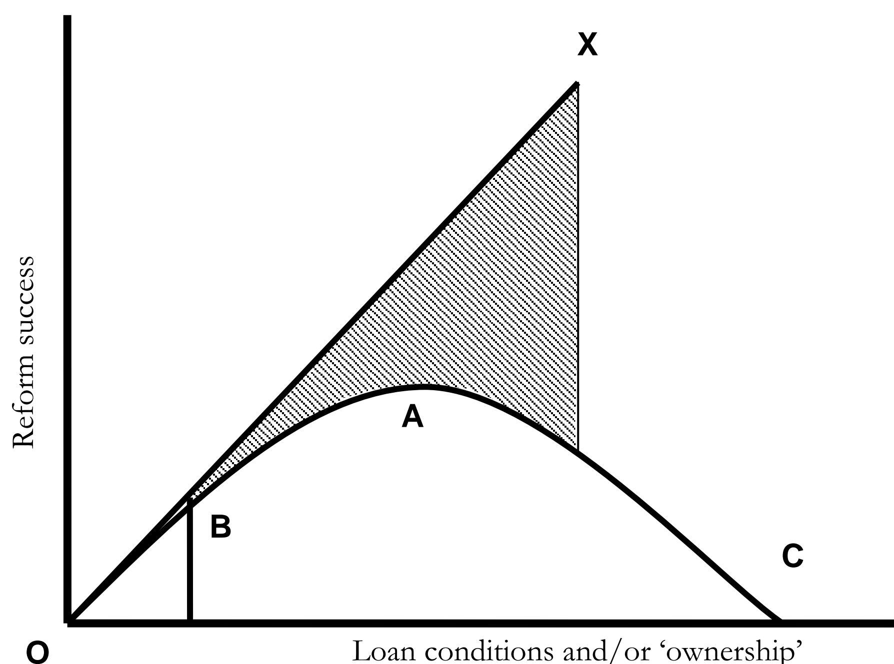


Figure 1 expresses a legitimacy gap diagrammatically by borrowing from Graham Bird's work on the Fund's 'conditionality Laffer curve' (2003, 122). In the diagram the line OX represents the optimal view often ascribed to the Fund — that as it increases the stringency of loan conditions, the likelihood of reform program success will also increase. It also reflects the more recent view that requesting and requiring governments in borrowing states to declare their 'ownership' of reform policies will boost reform program success. The line OX therefore represents the Fund's claim to the legitimacy of policy reforms. The OX line also fits with the conventional wisdom on how the Fund operates: that borrowers wouldn't reform their economies in 'IMF Friendly' ways without loan conditions being imposed (Vreeland, 2003b, 337). A number of conditions, marked on the diagram at B, will be seen as standard and, as James Vreeland has discussed, are often desired by borrowing states because they are in line with their own economic policy objectives (2003a, 56-7). But this holds true only up to a point, indicated by A, as when conditions are too stringent reform program success diminishes. Any claims to the appropriateness of reform program advice from B onwards require strong legitimacy claims from the Fund.

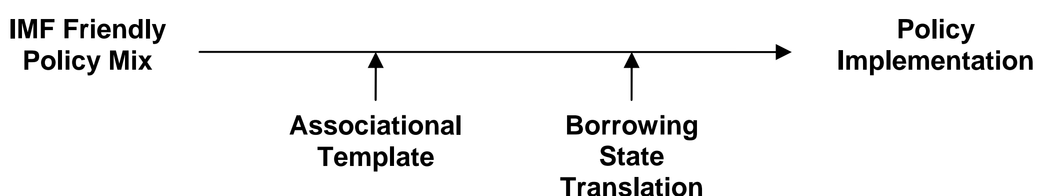
In Figure 1 the curve OC reflects acts taken by the borrowing states in response to legitimacy claims made by the Fund. The failure to successfully implement reform programs may be seen as a technical or financial

failure, and this may indeed be the case, but the Fund's own rhetoric in recent years suggests that 'political will' is a key problem. This view is that despite loan conditions and declarations of 'ownership', the governments of borrowing member states do not have the political will to push through reforms. Accordingly, the shaded area in the figure represents the legitimacy gap. Within this space we can find conflict over rightful membership and rightful conduct, as well as the consequence of the Fund's failure to match its social constituency of legitimation with its realm of political action. Narrowing the gap requires a resolution to the crisis (discussed below), or, in the diagram, bending both the OX and OC lines to be more closely coordinated.

One way to do this is to provide more customized policy advice. However, there are clear limits to providing customized advice given that the Fund's resources are limited (more now than ever), and that highly customized advice invites allegations of favouritism. As such, excessive customization would violate rightful membership and rightful conduct, particularly the principle that all member states should be treated equally. Of course, as discussed above, the bulk of criticism against the Fund is that it provides excessively homogenous 'one-size-fits-all' policies to all member states. To work our way through the two extremes of complete customization and excessive homogeneity, my reading of Fund archival documents on taxation reform between 1965 and 2000, as well as interviews with Fund staff (Seabrooke, 2006d), suggests that the Fund did, and can, use what I refer to as an associational template (see also Broome and Seabrooke, 2006; cf. Xu, 2005).

The purpose of templates is to legitimise claims to economic reform on the grounds that they are appropriate for a state in a region with *x* characteristics, or belonging to a group of states with *x* characteristics. So while the Fund undoubtedly has a range of policies it considers to be 'IMF Friendly' for all states, templates permit partial customization of policies. South Korea's tax revenue system, for example, is positively compared with its Asian neighbours until 1996 when the state joined the Organisation for Economic Co-operation and Development (OECD) (Seabrooke, 2006b). In the past, the use of templates permitted the Fund to claim the legitimacy of rightful membership, by treating all members equally, as well as to make a legitimacy claim to rightful conduct by framing policy advice within a more localised frame. Given the use of associational templates, we may think of how the Fund could encourage its 'IMF Friendly' policies in borrowing states through the process depicted in Figure 2.

Figure 2: How the IMF influences member states



Here the ‘IMF Friendly’ policy mix represents an independent variable, the use of an associational template the first conditional variable, with a second conditional variable concerning how the borrowing state then *translates* the ‘IMF Friendly’ policy into a domestic context where it is recombined with elements that lend the policy domestic legitimacy (Jacobsson, Lægreid, and Pedersen, 2004; Broome, 2006). If both conditions are achieved then policy implementation may be possible.

My reading of Fund documents (Executive Board minutes, loan arrangements, and staff reports) for a range of states suggests that the use of templates has probably waned over time. This may be attributed to internal dynamics within the Fund: namely an internal change in power dynamics in the determination of reform policies from the area desks (the Fund currently has departments for Africa, Asia, Europe, the Middle East and Central Asia, and the Western Hemisphere) to the policy departments, such as the Fiscal Affairs Department for taxation and, most importantly, the Policy Development and Review Department. Fund staff interviewed during August 2005 suggested that the policy departments had increased their prominence in providing ‘world’s best practice’ policy design for reform programs, while area desks were more concerned with assessing what policies can be implemented.[4] Such internal changes within the Fund have created ‘pathologies’ (Barnett and Finnemore, 2004) that deepen violations of rightful membership and rightful conduct, while also expanding the Fund’s realm of political action without accordant attempts to redefine its social constituency of legitimation. Rather, the tactic up until the turn of the century was to rely on technical expertise to support claims to legitimacy, as well as to increase loan conditions.

The problems with this strategy, specifically in relation to the Asian financial crisis, have been recognized by the Fund. In recognizing its own international crisis of legitimacy, Montek Ahluwalia, the Director of the Fund’s Independent Evaluation Office argued in 2003 that:

> Overloading programs with multiple conditions, exemplified by the Indonesia program of January 1998, diffuses attention, making it difficult to ensure implementation of what is really critical. It is also often resented as being excessively intrusive, especially in a democratic environment (Ahluwalia, 2003, 7).

Beyond overloading reform programs with conditions, staff within the Fund increasingly recognize that loan program rules associated with rightful membership and rightful conduct are out of sync with its realm of political action and, by association, its social constituency of legitimation. For example, during interviews with staff from the Fiscal Affairs Department, staff openly accepted that a reform program for a significant tax systems change, such as the introduction of a Value Added Tax, requires 10 years.[5] Now, the maximum single loan program with strong economic reforms (such as the ESAF and now PRGF) is 3 years. The Fund is therefore operating on a longer policy horizon that its formal rules permit. This change exemplifies the need for the Fund to formally realign its institutional structure and means of engaging in a dialogue with its borrowing states, rather than relying on a discourse of ‘ownership’ and a technocratic approach to ‘world’s best practice’ as the key elements of its claims to legitimacy.

The Fund's Existing Strategies for Crisis Resolution

How can the Fund disentangle itself from its current international crisis of legitimacy? This article suggests that the recent criticism launched at the Fund following its misdiagnosis of the Asian financial crisis, its own questioning of its role and purpose, and unfair voting structure do not in-themselves sufficiently explain its international crisis of legitimacy. Rather, longer-term violations of rightful membership and rightful conduct, as well as a mismatch between the Fund's realm of political action and its social constituency of legitimation, provide a better conceptual handle on how a legitimacy gap has become an international crisis. It is these foreground and background changes that have widened the gap between what the Fund can claim has legitimacy in reforming states, and what its member states will actually act upon.

It should be noted that the Fund is actively seeking ways of resolving its international crisis by how it claims legitimacy. The Fund plans to implement institutional changes to address rightful membership problems, as well as, more controversially, to dramatically widen its social constituency of legitimation.

First of all, on rightful membership the recent stress on how the Fund can resolve its international crisis of legitimacy has been upon a change in voting shares. As discussed above, the current distribution of votes is heavily biased towards Western states, especially the US, and grossly under-represents emerging market and developing states, particularly those in East Asia (Rapkin and Strand, 2006). The Fund is now actively pursuing an agenda to reshuffle the distribution of voting rights. In September 2005, in a forum on reforming the Fund, the IMF Managing Director, Rodrigo de Rato, stated:

> The Fund's ability to persuade our members to adopt wise policies depends not only on the quality of our analysis but also on the Fund's perceived legitimacy. And our legitimacy suffers if we do not adequately represent countries of growing economic importance. This means, in particular, increases in voting power for some of the emerging-market economies, especially in Asia (de Rato, 2006, 131).

This was a significant acknowledgement of the Fund's legitimacy crisis, which has been followed up by the Fund's Board of Governors' September 2006 approval of a voting reform program, to be implemented over a two-year period, that provides clear increases in voting rights for China, South Korea, Mexico, and Turkey, as well as opening up discussions for the doubling of basic voting rights to give more power to the Fund's poorest member states.[6] The change in voting rights is expected to come at a cost to European states rather than to the US (Truman, 2006, 529-530). Discussions on how the Fund can resolve its legitimacy crisis have also converged, like that on international financial architecture more broadly (Seabrooke, 2006a, chapter 7), on the inclusion of the G-20 as a new 'steering committee' for the Fund (Truman, 2006, 530-531). In addition to these reforms, there are growing calls for the Fund to adopt 'double majority' voting requirements, so that both 85 percent of votes in total, as well as a 60 percent majority of members, would be required for a special decision (Woods and Lombardi, 2006, 495). Such a change would broaden consultation among member states and, with it, further deliberation.

The Fund's reforms to its rightful membership should be congratulated and may well assist it in making its 'foreground' claims to legitimacy more persuasive. It does little, however, to address the Fund's 'background' legitimation problems concerning how its realm of political action and its changing perception of what should constitute its social constituency of legitimation match up. For example, recent debate has included the use of 'naming and shaming' techniques for misbehaving states (Truman, 2006, 532), akin to how the OECD has 'shamed' tax havens (Sharman, 2006). Such a strategy violates rightful membership and rightful conduct. It also would provide a clear demonstration that the Fund is interested in imposing a 'standard of civilization' on its member states (Best, 2006).

Also of concern is the Fund's plans to explicitly broaden its social constituency of legitimation in a manner that violates rightful membership. We return once more to recent comments by Rodrigo de Rato on the need to improve the communication and the transmission of Fund advice:

> [T]here are countries where the Fund gives advice that is not followed. Sometimes this is because of disagreement on the analysis of the issue. These are cases where we obviously need a serious, engaged, dialogue with the member on the nature of the problem and how to fix it. But there are also plenty of cases where there is agreement on the analysis but reluctance to act on that analysis for political reasons. In these cases, I would like the Fund to be more forthright in making the case for the policies we support, including to the public. In globalized democracies, public opinion can be changed by persuasive arguments, and changes in public opinion can change the positions of policymakers… where we help generate public support for good policies, we can go further and do a service to our member governments by making the case for reform in a clear and forthright way (de Rato, 2006, 132).

The Fund therefore seeks to bolster its legitimacy claim by appealing to the public within member states. This is a logical extension of the Fund's recent insistence that borrowing member states demonstrate their 'ownership' of economic reform programs. However, if the Fund wishes to 'lock-in' political will through direct appeal to the public, this is a clear change in what it considers its social constituency of legitimation. While we may, on the face of it, applaud the Fund's willingness to engage 'civil society', the above strategy is fraught with problems (Thirkell-White, 2004). First and foremost, the Fund's role is not to appeal to citizens within states to take on Fund policies. The Fund's member states join on the principle of sovereign non-interference, so the notion that citizens should receive information to then pressure their governments to adopt Fund policies is a violation of principles of rightful membership and rightful conduct. Second, the Fund is poorly resourced to provide direct appeals to citizens within states, not the least because it has less than a third of the staff of the World Bank. Third, if the Fund's key means of claiming legitimacy is to rely on the production of 'world's best practice' economic policy, one wonders how its will get its message across to ordinary citizens.

Conclusion: Alternative Proposals to Resolve the Fund's Legitimacy Crisis

An alternative and, to my mind, superior strategy is for the Fund to improve deliberation with its member states, especially borrowing member states, rather than engaging in new forms of public diplomacy for which it is not equipped or authorized. One way to do so is for the Fund to place greater stress on the need for area desks to customize policies for borrowing states, rather than relying on 'world's best practice' engineered by the Fund's policy departments to immediately take precedence. The Fund could explicitly use associational templates to bolster their legitimacy claims and increase the likelihood that member states will confer their consent for appropriate economic reform policy and act upon them. Regional or like-group (context sensitive) meetings could include not only member states but also other groups, such as trade unions (Vreeland, 2003a), non-governmental organizations, and private economic interests (who the Fund is consulting in private during standard surveillance missions in many member states).[7] The Fund has already constructed institutions that could be used for this purpose, such as the Regional Office for Asia and the Pacific, so forging explicitly regional-level meetings could be presented as institutional evolution rather than as a radical reform. Importantly, such meetings would permit the Fund to ask like-states what they want in economic policy, without embarrassing or shaming governments. Certainly the BIS has been successful in promoting regional fora to foster a normative consensus (Seabrooke, 2006c). Fostering deliberation among regional or like-groups would allow the Fund to use its expertise and put its institutional memory to good use. Furthermore, as Woods and Lombardi's (2006) work points out, internal decision-making within the Fund already operates around regional and like-groups. An explicit strategy of customized deliberation, in association with voting reform, would therefore provide one means of bringing closer together foreground legitimacy claims related to rightful membership and background legitimacy claims related to its social constituency of legitimation.

On how the Fund and its member states act, the pressing need for the Fund is institutional reform that recognizes that it is under-funded and therefore pressed to rely on an odd combination of moral suasion and technocratic expertise. To alleviate this problem Graham Bird has suggested that the Fund should be much more engaged with international private capital markets to raise more of its own funding (2001, 841). A better-funded Fund, alongside a new mandate that recognizes its expanded policy practice, would allow it to strengthen its foreground claims to rightful conduct. If this can be achieved then the Fund's realm of political action can be clearly marked rather than the Fund engaging in ever-increasing 'mission-creep'. If all of the above could be achieved then bringing foreground and background claims in line with acts is more likely and the legitimacy gap could be narrowed.

Importantly, and while the prospect of the above happening is far from clear, the Fund must protect is member states' sovereignty for its legitimacy claims to have a chance of being conferred and acted upon. Deliberation between the Fund and states is the only means of bringing together the foreground and background aspects described above. The Fund does have sufficient autonomy from its key member states to transform how it deals with its member states, if not complete institutional reform due to its voting

structure. Its ‘organizational slippage’ can be reversed not with an insistence on transparency and accountability in its member states, but by being more flexible in how it designs and implements its policies (Babb, 2003; Best, 2005). While it may sound old fashioned, the key means to coordinate and foster deliberation within an international organization is through the sovereign state. Resolving the Fund’s international crisis of legitimacy requires it to avoid a combination of economic dogma and civil society engagement, and, instead, use its autonomy to adapt founding political principles to new economic realities.

Notes

1 This article was drafted while a visitor at the Norwegian Institute of International Affairs (NUPI), Oslo. It was then revised during a visit to the Center for the Advanced Study of the Behavioral Sciences (CASBS), Stanford University. My thanks go to all of the participants in this symposium, as well as to Mick Cox, for their feedback on earlier versions of this article at both the Canberra 2005 and Bellagio 2006 workshops. My thanks also go to Jacquie Best, Anna Persson, Ole Jacob Sending, Shogo Suzuki, and Antje Vetterlein for their conversations and comments on earlier drafts. My special thanks go to André Broome for his extensive comments on earlier drafts. My thanks also go to the archivists in the International Monetary Fund Archives, Washington D.C., especially Madonna Gaudette, Premela Isaacs, and Jean Marcoyeux.

2 The hunch on templates is drawn from a broader study of the Fund and tax policy advice to twenty states between 1965 and 2000. In the broader study the states are: Indonesia; South Korea; the Philippines; Thailand; Romania; Yugoslavia; Turkey; Argentina; Bolivia; Chile; Ecuador; Mexico; Morocco; Egypt; Pakistan; Sri Lanka; Cote d'Ivoire; Ghana; Senegal; and Zambia. A companion study on small open economies is also under development (see Broome and Seabrooke, 2006). On the Asian states alone please see the extended research paper in Seabrooke 2006b. The broader study is under development, see Seabrooke 2006e.

3 Of course it is necessary to specify, case by case, when the failure to implement policy is not due to a lack of belief but due to technical or financial capacities. While in the past the Fund concentrated on building administrative, technical and financial capacities, its recent shift to stressing ‘political will’ and ‘transparency’ in member states points to a legitimation problem rather than to a ‘know-how’ or resources problem.

4 As commented to me in an interview with a Fund staff member in Washington, DC, August 2005.

5 Interview with staff member of Fiscal Affairs Department, IMF, in Washington, DC, August 2005.

6 ‘IMF Board of Governors Approves Quota and Related Governance Reforms’, IMF Press Release No. 6/205, September 18 2006, see: www.imf.org/external/np/sec/pr/2006/pr06205.htm.

7 As commented to me in an interview with the Macroeconomic Policy Chief, Danish Ministry of Finance, Copenhagen, June 2005.

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