In Lieu of an Anchor: The Fund and Its Surveillance Function

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Abstract

In the absence of an universally agreed upon 'rules of the game', the international monetary system relies inordinately on the International Monetary Fund (IMF) to exercise firm surveillance over its membership, in order to facilitate the smooth functioning of balance of payments adjustment and to supply the global public good of financial stability. The global financial crisis highlighted the failure of the IMF to fulfill both these roles; but also the growing complexity of the governance and surveillance challenges facing the Fund in an increasingly interconnected global economy. Despite these glaring failures, there exists essentially no politically feasible alternative; and as such the Fund is now more central to international monetary relations than it has been at any other time in the post-Bretton Woods era. The heavy reliance of the Group of 20 on the Fund staff to support its Mutual Assessment Process is demonstrative of this new reality.

International political economists have long been critical of IMF surveillance. The rich theory which IPE scholars developed over the past decades is an important analytical tool for understanding both the failures of Fund surveillance and possible avenues for reform. This chapter provides an overview of the evolution and criticism of Fund surveillance since the end of the Bretton Woods era; the theory which IPE scholars have applied to developments in Fund surveillance; and recent reform efforts following the global financial crisis.

Introduction

The economic historian Barry Eichengreen writes that Classical Gold Standard was a 'historically specific institution'; or rather that "It was a socially constructed institution whose viability hinged on the context

in which it operated" (Eichengreen, 2008). Today's International Monetary System[1] (IMS) is no different: with its complexity, incongruence and often incoherent nature a reflection of the constantly evolving political and economic order that this system is embedded within. The *raison d'être* of International Monetary Fund (IMF) is to cut through this complexity and promote the smooth functioning of the IMS. In the absence of a concrete set of agreed-upon 'rules of the game' to govern international monetary affairs, the Fund relies heavily on its surveillance function. In the post-Bretton Woods system, the importance of (and difficultly in exercising) effective surveillance has grown in line with the rapid globalization of capital[2]. In comparison, despite its many short-comings, the Bretton Woods system was at the very least rules-based and its creation was the result of series of negotiated (albeit imperfect and incomplete) settlements between American and British representatives[3]. By contrast, the current system has been often referred to as an international monetary non-system (Truman, 2012): lacking a common nominal anchor, an official means of managing global liquidity, an adequate set of agreed-upon rights and responsibilities, or a market/policy-based adjustment mechanism between deficit and surplus nations. These highly entrenched structural deficiencies run deep and continue to frustrate and impede advancement in international monetary relations. Reflecting on these matters, Padoa-Schioppa (2011) notes that following the collapse of the Bretton Woods system "the global economy was simply left without any monetary order at all. In this vacuum, money's basic functions (numéraire, medium of exchange and store of value) were performed by a random combination of local arrangements and tools, market mechanisms and initiatives, loose cooperation between national authorities, occasionally by coordinated action, and by the disorderly interplay of national policies." Similarly, as the European Central Bank staff argue, today's IMS "is not a 'system' in the sense of a planned and organized framework. It is thus very elastic and adaptable in nature compared with, for instance, the Bretton Woods system… This is its strength, but it may also become its weakness if the policies of the system's main actors pay insufficient attention to longer-term macroeconomic and financial stability concerns and negative externalities affecting other countries (ECB, 2011)."

It is the existence of these 'random combinations', or rather the completely *ad hoc* nature of the current system, which leads to such a large weight being placed on IMF surveillance. Similarly, given the 'elasticity' of the current framework, the current system depends heavily on the existence of a neutral third-party that can focus its attention on 'longer-term macroeconomic and financial' issues. As such,

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[1] According to the World Economic Forum (2012): "The international monetary system consists of conventions, policies and institutions governing international payments, the choice of exchange rate regimes and the supply of reserves. It creates an environment where international currencies facilitate the exchange of goods and services, the accumulation of savings, price setting and calibration as well as the denomination of balance sheets for both public and private actors. It also allows countries to run deficits in their external accounts and should ideally contribute to a gradual rebalancing of these external positions."

[2] Indeed, strictly speaking the term 'surveillance' did not enter into IMF lexicon until the 1978 amendment of the Fund's Articles of Agreement. During the Bretton Woods Era (defined either as the period covering 1944-1971 or 1958-1971), only member-states that had yet to fully liberalize their current accounts (itself one of the main obligations of IMF membership – cf. AoA Article I Sec IV) were required to complete regular 'consultations' with the IMF. To increase the legitimacy (and hopefully the efficacy) of this vital Fund service, the US began to submit itself to voluntary consultations beginning in 1960 (See: Pauly, 2008).

[3] For a discussion of how Bretton Woods Conference attendees left much still to be decided upon and how this sowed the seeds of the system's ultimate breakdown, see Siklos (2012).

within this context, it is the Fund that, in the always elegant words of Lord Keynes, must play the role of 'ruthless truth teller'. As former Governor of the Bank of Canada, David Dodge, argues: "The Fund's surveillance should determine the "truth" about the economic policies and circumstances of member countries, and then 'tell' or communicate this truth transparently to all members and to the international community at large"(Dodge, 2006). Arguably though, heavy reliance on surveillance is a second best. Indeed, it is important to ask whether a surveillance-based process, no matter how vigorous and critical, is capable of delivering on the objectives laid down in the IMF's Articles of Agreement (Boorman, 2011). The creation of a formal 'rules of the game' is, however, unlikely given the extent to which members have historically resisted yielding state sovereignty (Boorman, 2011). As such, it is surveillance – and occasionally financing programs - which the Fund is forced to rely on; in what has become a vexing effort of attempting to provide some discipline to the IMS.

In the context of unprecedented financial globalization, a multiplicity of domestic monetary policy frameworks, and at times divergent economic philosophies, the Fund has truly been given a daunting challenge. The post-Bretton Woods era witnessed the Fund given the unenviable role of having to combat balance of payments crises originating in the capital account – which history has shown to be far more virulent and destructive than its tamer current account cousin. In this capacity the Fund has had to resort to far more intrusive and politically sensitive policy proscriptions, in an attempt to manage the expectations of a multiplicity of financial and economic actors (Haley, 2012). In this capacity, the Fund has found itself at the vanguard of economic reform efforts in developing and emerging market economies. The fraught legacies of this grand experiment continue to define (and haunt) the IMF in its relationship with a large percentage of its members. Despite these important prefaces, by numerous accounts the IMF has - in part owing to the complex political economy of its governance - struggled to fulfill even the thinnest interpretation of its Purposes as laid-out in its Articles of Agreement. The Fund's primary policy lever - i.e. Surveillance – for achieving its stated aims remains highly imperfect, largely ineffective and continues to be a source of political contestation. The 'why' and 'how' of these outcomes, as well as the reform efforts triggered by the global financial crisis, is the topic of this chapter.

Evolution and Criticism of Surveillance (up until the GFC)

Many of today's critical issues and debates over the operation of the IMS are actually not new. As Pauly (2008) notes, during the negotiations over the major early post-Bretton Woods era reforms, the American negotiators were completely aware of the potential difficulty in operating an IMS without a binding set of rules - such as currency pegs - but given the US' preeminent role in international financial markets they were eager to reap the benefits that flexible exchange rates and open capital accounts would bring (or were hoped to bring). At the opposite end, the French favored a return to some form of fixed exchange rates and the maintenance of capital controls (Pauly, 2008). For the French, allowing the

dollar to float and capital to flow freely would remove even the modest degree of external constraint which existed on the US current account position during the BW era. This lack of discipline is what former French President (and then Finance Minister) Valery Giscard d'Estaing referred to as the US' 'exorbitant privilege' (Eichengreen, 2008, 2011)[4]. The compromise agreed to by the French and Americans would see the IMF assigned to exercise 'firm surveillance' over a 'stable system of exchange rates' (AoA Article IV Sec I, Sec III), and through continued consultation with members "to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members" (Pauly, 2008; IMF AoA Article I Sec VI, 2011c). The emphasis on the term 'firm' proved a small victory for the French, while the use of the phrase 'stable system' versus 'stable exchange rates' underscored the ultimate victory of American negotiators (Pauly, 2008)[5].

As such, It is largely surveillance mechanisms, and ideally some modicum of peer-pressure through the IMF Executive Board, that the Fund has been forced to work with in order to insure that countries are not maintaining policies that prevent the adjustment of macroeconomic imbalances or create negative spillovers for other members.. This is, and continues to be, the legacy of the tumultuous 1970s. The Fund's loss of control over the IMS's nominal anchor (i.e. exchange rate par-values) left the Fund with "few, if any, instruments with which to fulfil its task." Adjustment hence had to occur through a 'process' of continued dialogue between the Fund and members (Lombardi and Woods, 2007) – with the Fund's surveillance function serving as the vehicle for instilling the logic of collective action. However, the exact dynamics of this process were never spelled out. The Fund's mandate may have expanded as a result of the Second Amendment in 1978, but the flip side of this development was "a shift in authority back to member countries and away from the IMF ….As a result, bilateral surveillance evolved more by way of procedural adaptation than through the emergence of tighter or more specific rules "(Lombardi and Woods, 2007).

The globalization of capital, beginning with the 'Nixon Shock' in 1971[6], profoundly reshaped the way nations relate to both the market and to each other in their monetary affairs. The current architecture of the IMS remains the 'institutional legacy' of a global order where capital was almost fully buffeted by the steady hand of the state (Pauly, 2008). However, once freed from the self-imposed confines of capital controls and fixed exchange rates the Fund's major shareholders no longer were forced to rely on the Fund to support the stability of their balance of payments. Weaker members, as history forcefully

[4] The term is often incorrectly attributed to Charles De Gaulle.

[5] In pursuit of these ends, Fund surveillance was directed toward insuring members' compliance with the following obligations: "(i) [to] endeavor to direct its economic and financial policies toward the objective of fostering orderly economic growth with reasonable price stability, with due regard to its circumstances; (ii) seek to promote stability by fostering orderly underlying economic and financial conditions and a monetary system and a monetary system that does not tend to produce erratic disruptions; (iii) avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members" (AoA, Article IV, Sec 1)

[6] The term 'Nixon Shock' refers to the unilateral decision of the Nixon Administration to close the 'gold window' though which it had previously accepted conversion of official dollar holdings into gold at a fixed rate of $35 per troy ounce. This decision effectively brought an end to the Bretton Woods system.

shows, have not been as fortunate. By this point, as Lombardi and Woods (2007) argue, the IMF "lost its credit union character, in which all members were deemed to be equally likely to apply for temporary balance of payments support to uphold the fixed exchange rate system. The membership became and remains segmented between creditors and (potential) borrowers, that is, industrial versus developing countries." This later fact has arguably changed with the rise of powerful dynamic emerging market economies like Brazil and China. However, the fact remains that were law is flexible, power becomes salient (Pistor, 2012).

To fulfill its mandate, the Fund relies on two forms of surveillance: global and, more notably, country or bilateral surveillance. Global, or multilateral, surveillance is achieved through the documentation of patterns and developments in the international monetary system. Both are legal requirements of members to facilitate, as outlined in Article IV Sec. 3. The resulting publications include the flag-ship World Economic Outlook, International Financial Statistics, Global Financial Stability Report, Regional Economic Outlooks, and a vast number of technical and policy studies. Country, or bilateral, surveillance is achieved through the Fund staff's Article IV Consultations with member states. These bilateral meetings are carried out annually and are mandatory exercises (along with standardized national data reporting) once countries join and accept the Fund's Articles of Agreement. These reports are conducted by the IMF staff in area departments and historically have been the Fund's primary means of insuring members pursue a policy mix consistent with domestic and external stability - particularly in the case of members that are unlikely to ever request fund financial assistance.

According to the Fund's Articles of Agreement, Fund staff should limit their policy advice to issues that may give rise to balance of payments or domestic instability. Members are *not* required to change policies that, while potentially contributing to IMS instability or generating negative spillover effects for other members, do not threaten their own external of domestic stability. Beginning in the post-Bretton Woods era, however, the scope of Fund surveillance has extended beyond basic macroeconomic policy recommendations, causing some concern and criticism among academics, pundits, and some member countries. Today, in addition to requiring a higher number of macroeconomic best-practices for its members, Article IV Consultations have been known to include an increased number of microeconomic and structural requirements. In the wake of successive systemic crises, microeconomic and structural conditions have been included in surveillance reports and subsequently in loan agreements, on the grounds that these factors also affect macroeconomic outcomes. According to an external Fund study of surveillance, during the high-water mark of Fund conditionality during the 1980s and 1990s, staff missions and member states were routinely discussing such varied topics as "…trade liberalization, labour markets, offshore banking supervision, tax reforms, expenditure streamlining, income distribution, poverty, land reform, environment, and so forth" (IMF, 1999: 41).

It has been argued by Fund critics that particularly since the mid-1990s, the IMF's surveillance function has been guilty of mission creep into both public and social policy, of moving beyond the mandated monetary and fiscal realm. This is in part attributable to the 1994 Mexican Peso Crisis which highlighted the need to improve and expand information-sharing, bilateral surveillance, and policy

advice. Following the Mexican crisis, the Fund attempted to better forecast systemic crises; the Fund was assigned this role because it could best collect, provide, and analyze countries' information. The Mexican crisis also highlighted that "…it is not primarily surveillance over the most likely users of IMF support [i.e., developing and heavily indebted countries], but rather over the countries of greatest systemic importance, this is most vital" (Masson and Mussa,1995: 38). The countries of systemic importance, or the 'too-big-to-fail' countries, became large borrowers of the Fund, which captured the attention of powerful Fund members and Fund management and staff. The default of too-big-to-fail countries risked triggering systemic crises and the failure of these countries' financial systems could spark contagion in international capital markets. The expanded scope of Fund surveillance allowed heavy Fund staff scrutiny of too-big-to-fail countries such as Turkey, Indonesia, Brazil, Argentina and Russia. With the onset of the Asian financial crisis in the late 1990s, the Fund was accused of mission creep again in Asia, and particularly in South Korea and Thailand. As more countries borrowed from the Fund in the late 1990s and early 2000s, the Fund used its loan programmes to garner more information of countries' economic policies, which sometimes raised the eyebrows of member countries' officials for being 'too intrusive' into their internal affairs.

In learning the lessons of previous financial crises in the late 1990s and early 2000s, the G7 club of advanced industrialized countries developed a series of coordinated international financial standards that they hoped would avert another financial crisis. Specifically, the G7 asked the IMF (with the assistance of the World Bank) to expand its surveillance function again by monitoring country compliance with the Financial Sector Assessment Program (FSAP) and the Reports on Observance of Standards and Codes. As per usual politicking, however, many powerful countries insisted that the process be voluntary, which ultimately made the exercise futile as global economic heavyweights like the United States delayed or refused to commit to an FSAP. In retrospect, the voluntary approach proved to be blatantly shortsighted in light of the fact that the US financial system was the epicenter of the 2007-2009 global financial crisis (GFC). Those that did commit to the additional IMF surveillance and oversight measures were often under the political thumb of the institution, in needing access to IMF financing. Many members simply had little to lose by committing to the added disclosures. As former Federal Reserve Chairman Paul Volcker noted, "When the Fund consults with a poor and weak country, the country gets in line. When it consults with a big and strong country, the Fund gets in line" (Volcker and Gyohten 1992). The hope of an expanded G7—which eventually begat the G20—was that the new members of the club, particularly countries like China, Brazil, Turkey, and South Korea, would add legitimacy to the process and have a greater stake in mutual coordination and surveillance. When the next crisis hit however, it was not familiar emerging market economies that were at the epicenter. The GFC laid bare that the Fund had failed to apply hard-learned lessons from crises of the 1980s and 1990s to the surveillance of its largest and most influential members.

While technically separate systems, the IMS and the international financial system are mutually dependent systems – with each relying on the other to insure its own efficacy and stability (ECB, 2011). This has long been recognized. However, in the decades preceding the GFC the Fund (mirroring the opinions held in major political capitals) tended to assume that, at least in core developed financial systems, the discipline imposed by market forces would insure that imbalances when they did form

would not last long. Instead, during this period of relative global macroeconomic tranquility the primary worry of the Fund became the gaping current account imbalances that were forming between a hand-full of core developed economies (namely the US and the UK) on the one hand, and the petroleum exporters of the Middle East and the dynamic EMEs of the East Asia on the other. This epochal macroeconomic development is what Federal Reserve Chairman Ben Bernanke dubbed the 'global savings glut' (Bernanke, 2006, 2007; Bernanke et al, 2011). If ever policy coordination facilitated by the Fund acting in its surveillance function were needed – this appeared to be it.

With the benefit of hindsight, we now know that what the Fund failed to understand, or rather identify, was the intimate relationship between these growing global macroeconomic imbalances (i.e. savings and investment imbalances) and the profound changes and adaptations occurring in the US-UK core of the global financial system. The heavy reliance on a single source of growth in deficit countries (consumption) and surplus countries (exports) was facilitated by the rapid growth of credit generated by the constantly evolving financial systems at the core (ECB, 2011). Viewed in this light, growing financial imbalances and global current account imbalances were simply joint symptoms of the growth dynamics underpinning rapid global expansion in the period bookmarked by the Asian Financial Crisis and the Global Financial Crisis[7]. In other words, to its credit "The IMF did appropriately stress the urgency of addressing large global current account imbalances that, in the IMF's view, risked triggering a rapid and sharp decline in the dollar that could set off a global recession. But the IMF did not link these imbalances to the systemic risks building up in financial systems" (IEO, 2011; See also: IEO, 2010).

As such, from the perspective of the Fund, systemic imbalances and sustained market failures were not thought possible in core financial systems (or at the very least existed only at the very extreme end of the risk distribution) (IEO, 2011). As Bezemer (2009) argues, this view of finance (a view undoubtedly shared by the Fund) "fits in with a "reflective finance" view; the financial sector, rather than developing its own dynamic, is assumed to adapt to the "real fundamentals", so that explicitly modelling it is superfluous...If the crisis and recession teach us one thing, it is that the financial sector is just as real as the "real economy". For the most part, this assumption freed the Fund to worry solely about the health of the IMS without considering its interaction with financial variables. Where systemic financial vulnerabilities did pose a risk to the functioning of the IMS, the experiences of the developing world financial crises of the 1980s and 1990s demonstrated to the Fund that these risks emanated overwhelmingly from friction-laden underdeveloped financial systems of emerging market economies (IEO, 2011)[8]. Indeed, it is not that the Fund did not take seriously financial stability risks. The Mexican

[7] What is not being argued here is that global imbalances *caused* the GFC. Rather, what is being highlighted, is that these two very important global macroeconomic stylized facts (i.e. financial imbalances and savings and investment imbalances) are both *reflections* of deeper imbalances in the growth models underpinning major world economies (in particular the US/UK and Emerging East Asia). For a discussion of possible links between the GFC and global imbalances, see: Borio and Disyatat (2011), Portes (2009), Bernanke et al (2011) and Obstfeld and Rogoff (2009). On the negative effects of reserve accumulation, see Gagnon (2012a, 2012b); and for a more agnostic take, see IEO (2012).

[8] For example, the IEO's post-mortem of the Fund performance in the lead-up to the GFC, found that "the IMF did not see the similarities between developments in the United States and United Kingdom and the experience of other advanced economies and emerging markets that had previously faced financial crises."

Peso Crisis and the Asian Financial Crisis both triggered important policy responses by the Fund and the international community (Haynes, 2012). The Fund for its part, attempted to strengthen its surveillance of financial systems and upgrade its own expertise in these policy areas – particularly in the sphere of macro-financial linkages. Similarly, the Financial Stability Forum (FSF) owes, in part, its creation to the realization by major stakeholders at the Fund of the need to cooperate internationally on matters of financial stability.

Again though, the benchmark for judging prudential regulation was the light-touch regimes utilized by the US and UK and the tremendous depth, liquidity, sophistication, and innovation demonstrated by these financial markets. In hindsight, the Fund – and other global regulators – did not draw the correct lessons from the crisis-racked 1990s. As the IEO's post-mortem of the Fund's performance in the lead-up to the GFC revealed, "The IMF did not see the similarities between developments in the United States and United Kingdom and the experience of other advanced economies and emerging markets that had previously faced financial crises" (IEO, 2011).

Taken together these set of assumptions explain why the Fund placed such weight on the use of FSAPs for key EMEs on the one hand, and the resolution of global current account imbalances on the other. Regarding the latter, the vulnerabilities and large inefficiencies that global imbalances were (and still are[9]) believed to generate, helps explain why the Fund focused so heavily on identifying 'fundamentally misaligned'[10] exchange rates and determining the appropriate level of FOREX reserve holdings. As Blustein (2012) argues, it should come as little surprise that this particular component of surveillance (policing exchange rate policies) was the single most important international monetary objective of the Fund's largest shareholder – the United States[11].

With this in mind, both of the IEO's major post-mortems stressed that there exists, at best, only mixed evidence to link the failure of Fund management and staff to identify building financial imbalances directly to political pressure emanating from the Executive Board or major political capitals. Rather, the reasons for this failure appear to be more sociological and institutional in nature. Reviews to date reveal "problems that are long-standing, complex, and not easily solved. Critical among these were a corporate culture and incentive structure that fostered self-censorship and discouraged contrarian views

[9] According to the Fund's Pilot External Sector Report, "Global external imbalances (current accounts different from those warranted by fundamentals and desirable policies) add to vulnerabilities by exacerbating domestic booms and busts and amplifying spillovers. The most potent source of spillovers from busts is generally via financial contagion, although trade links can also be important (IMF, 2012x)." For an extensive review of literature on the intersection between IMS reform, global imbalances, and economic instability see: ECB (2011x), Chinn (2011), Blanchard and Milesi-Ferretti (2009, 2011), Palais Royal Initiative (2011), Fehri et al (2011), Carney (2011a, 2011b) and World Bank (2010).

[10] The term of 'fundamentally misaligned' was incorporated into the controversial 2007 IMF Decision on Bilateral Surveillance. Revised operational guidelines were put into place in 2009 which saw the removal of the term from Staff analysis. See Mussa (2007) and Blustein (2012) for a discussion of the heated debates among the IMF's Executive Board members over what qualified as fundamentally misaligned.

[11] See Blustein (2012) for a wonderfully colorful analysis of the Fund's attempts at correcting global imbalances in the years directly preceding the GFC.

(especially when it came to challenging larger shareholders), inhibited collaboration across organizational 'silos,' and sidelined financial sector analysis" (IEO, 2010; 2). Finally, the IMF was itself victim of broader failures within the macroeconomics profession. As Martin Wolf (2011) opines, "This is an acutely embarrassing episode for the Fund, indeed for orthodox economics, more broadly. For the principal institution dedicated to the analysis and promotion of global macroeconomic stability to have missed the most devastating financial and economic crisis since the 1930s is more than disturbing. It is calamitous." The IMF, arguably like much of the broader profession, was "hindered by a high degree of groupthink, intellectual capture, a general mindset that a major financial crisis in large advanced economies was unlikely, and [by] inadequate analytical approaches…"(IEO, 2011) for modeling complex macro-financial and international linkages (Jenkins and Subacchi, 2011). Indeed, mainstream pre-crisis work-horse models largely ignored macro-financial linkages and other balance sheet dynamics – or in many cases to even explicitly model the financial sector[12]. While it would not be fair to claim that 'no one saw it coming', the tumultuous events of 2007-2009 truly did take the mainstream by surprise (Bezemer, 2011)[13]. In this regard, blame cannot solely be laid on the IMF.

Theoretical IPE orientations/assumptions on IMF Surveillance

There has been a chorus of criticism of IMF surveillance and a slew of academic studies and reports that have argued for surveillance reform. From within the IMF policy circle, a number of reports have also criticized the IMF's surveillance function. Even prior to the development of the Fund's Independent Evaluation Office (IEO), the external evaluation done by Whittome and his colleagues, better known as the Whittome Report, had highlighted some of the IMFs failures with predicting and warning of the Mexican Peso Crisis. In the 1995 Whittome report, the authors pointed to the problem with the Fund's culture, which did not encourage truth telling and frank discussions among staff and country authorities. With a high degree of 'clientism' among the Fund staff, (i.e. it was found that relations between staff and officials were at times 'too chummy') there was an abundance of overly positive analysis of Mexico's economy. In Whittome (1995), the authors recommended at the time that Fund staff take more responsibility for surveillance failures. After all, it was stated, "there is thus a natural tendency for IMF surveillance staff to avoid criticizing their colleagues who designed the programme" (Bini Smaghi, 2004: 147). These are often the same individuals in the respective area departments. When current US Secretary of Treasury Timothy Geithner was serving as head of the New York Federal Reserve Bank, he argued that the IMF needed drop its generic, watered-down assessments of member countries' economic policies in favour of a publicized assessment. In addition to Geithner, a chorus of policymakers has also called for IMF surveillance reform that would allow the Fund to be a better 'umpire', 'scorekeeper', and 'truth-teller' (See King 2006; Dodge 2006). Similarly the Executive Board has

[12] See Caprio (2011) and Roger and Vlcek (2011) for an overview of pre-crisis mainstream modeling at major central banks and the IMF.
[13] See Bezemer (2009, 2011) for a discussion of who 'did see it coming' and the macroeconomic methodologies these researchers and commentators relied on in making their predictions.

been described as engaging in 'peer protection' rather than the desired 'peer pressure' (Boorman, 2011).

In another external evaluation of independent experts, led by John Crow (1999), a report also found that the IMF failed to properly monitor the financial and capital markets sector. The 1999 Crow report called for stronger bilateral and multilateral surveillance. In essence, Crow et al (1999) recommended that both IMF area departments and research departments better coordinate their sharing of information and their analysis of global and country economic performance trends. This was similarly echoed again by Lipsky et al. (2001), where the financial and capital markets sector were noted for not being given enough attention by Fund staff. The report encouraged additional staff training and expertise in this crucial area. Yet, the case of Argentina's collapse also demonstrated that despite the presence of relatively sophisticated capital markets, domestic economic mismanagement and inappropriate exchange rate policies could still generate negative contagion effects (Bini Smaghi, 2004).

A number of subsequent IMF and IEO-initiated reports noted the need for cultural and organizational reform. In particular, the studies noted the need for cross-fertilization among IMF area departments and capital/financial market departments; the need to remove the silo mentality across departments by creating incentives to cross-collaboration; the need to remove tendencies for self-censorship among staff; and the need to study potential negative economic scenarios to devise preventative strategies (McDonough, 2005; IEO, 2006; IEO, 2011).). Moreover, studies have found that IMF surveillance advice was poorly suited to the needs of individual countries and by that IMF advice in Article IV consultations tended to be insensitive to the political-economy circumstances of member countries (See Momani, 2006; IMF, 2006; IMF 2009).

Academic analysis on the Fund's effectiveness at surveillance, as usefully categorized by Lombardi and Woods (2008), notes three ways of viewing IMF surveillance: providing needed information and technical expertise as proposed by neoliberal institutionalists; a means to further interests of power politics as proposed by realists[14]; and building peer pressure by shaming fellow countries and eventually socializing them into accepting certain norms as proposed by constructivists.

The Fund has long held the neoliberal institutionalists' view that it has a comparative advantage in conducting surveillance because it has a wealth of expertise in providing economic and financial analysis to its many members, at economies of scale. Moreover, the Fund according to this view serves as type of policy coordination tool for its members; providing a forum for commitments to be pledged and procedural mechanisms for technocrats to judge the efficacy and multilateral consistency of such policy frameworks. Through this process the Fund helps "to promote international monetary cooperation", by providing the "machinery for consultation and collaboration on international monetary problems (IMF, AoA, 2011).

[14] Lombardi and Woods (2008) use slightly different theoretical terms: in their methodology neoliberal institutionalists are referred to as 'rationalist-institutionalists', and realists as 'rational-realists'.

In this view, national governments are deemed biased in assessing their own economic conditions and economic policies. Specifically, it is difficult for national governments to conduct apolitical audits and to give potentially negative assessments of their own economic state of affairs. Likewise, private firms would assess states wherever there is a strong financial and economic incentive for them to do so—to reap the costs of preparing their assessments. Smaller economies and less developed countries would simply be left on the wayside of private firms' analyses. Hence, the Fund's universal surveillance of its members is a unique public good (IMF, 1999: 18). As Bini Smaghi reflects on surveillance, Fund officials "...should not create moral hazard, by acting as rating agencies or giving assurances to markets that their investments are somehow safe or protected" (2004). In this view, the IMF cannot and should not replace market and investment participants (Ibid: 146)

A realists reading of neoliberal institutionalism on IMF surveillance, points out the potential for country free-riding; that countries will each paddle less of their share in the row toward financial stability. Herein is the problem of voluntary disclosures by national authorities to international bodies: there are both political and market incentives to domestic and international constituents to appear as stable as possible. The Eurozone Crisis in Greece underscores the problems with voluntary disclosures and the moral hazards of lax monitoring. As realists will remind us, international economic coordination will always face the reality that national officials and markets will act in their own interest and cater to the needs of their respective constituents and stakeholders first and foremost. A lesson of the global financial crisis was the G20 allowing an emboldened IMF to increase its surveillance of systematically important countries through the FSAPs and the G20 Mutual Assessment Process, in an effort to create an early diagnosis of potential weak links in the international monetary and financial system. As will be discussed at length shortly, here the G20 is entrusting the IMF not only to help coordinate information sharing and to provide oversight, but to also provide the technocratic weight of its staff to keep national and market interests in check. The reality is, however, that neither the IMF nor the G20 is immune from external politicking, particularly when powerful members intervene to challenge IMF analyses.

Realists point out that much like studies that have found political factors in IMF decision-making over lending and conditionality, we can read the promotion of IMF surveillance couched in geopolitical and strategic interests. For example, Fratzscher and Reynaud (2011) find that IMF surveillance outcomes are similarly influenced by geopolitical interest. Specifically, they argue that "…IMF surveillance appears to be systematically more favorable for countries with larger IMF loans outstanding, consistent with the finding in the literature that the IMF may engage in 'defensive surveillance'" (Ibid.) The United States' pursuit of multilateral surveillance in the mid-2000s was not just a push for identifying global exchange rate and current account imbalances for the sake of a global good, but in fact an attempt to challenge China's trade surplus with the United States which was a sore point in the US legislature (See Broome and Seabrooke, 2007; Blustein. 2012). Hence, through a realist lens it is simplistic to suggest that, as neoliberal institutionalists contend, IMF staff simply go to member countries to 'collect data'; IMF staff collect country data not as an end point but rather to interpret and analyze data to validate the way the IMF sees its role in improving country and global economies (Ibid; 578). Realists point out that the international monetary system is ultimately composed of self-interested states that despite rhetoric of the contrary remain interested in self-preservation over monetary coordination for some public good.

The only members that one can realistically expect the IMF to gain policy traction over are those which are forced to go 'cap-in-hand' to Fund for financing; as such there exists little means for the Fund to impose preventative measures on systemically important nations. As such, Rogers (2012) cautions that as the risks of financial crises in a globalized world will only increase with time, the IMF will be in a vulnerable position to predict and warn of these crises through its surveillance role. The IMF will increasingly be blamed for the onset of financial crises as its surveillance toolkit is supposed to be sharpened with time (Ibid, p.2).

Constructivists argue that states are also highly influenced by intangibles like shared ideas, norms, and beliefs. Over time, international organizations' staff gain the respect and deference of state officials and bureaucrats through repeated interaction (Arend, 1999: 142-147). Picking up on the IEO findings that cultural or organizational challenges exist in reforming IMF surveillance, academic work in the constructivist tradition have continued to analyze the limitations of IMF surveillance from an inside-out perspective that gives ontological value to the internal workings of the IMF. Specifically, constructivists argue that through IMF surveillance, staff teach and inform civil servants on how to better perform their work in accordance with internationally held standards of behaviour and in accordance with accepted beliefs and norms. In this vein, the Fund is viewed as the possible agent of policy change, molding state preferences by teaching states how to conform their behaviour to international standards (See Finnemore, 1996). International organizations are not passive actors used at the whim of states; rather, international organizations can identify problems, provide solutions, and assist states in changing their preferences (Ibid). Generally, IMF staff derive this authority from being both *in* authority, holding positions, roles, and seats to exercise power, and from being *an* authority, having expertise, training, experience, and solutions to global problems (Barnett and Finnemore, 2004:25-26). It follows then, that IMF staff are viewed as having their own missionary zeal to spread their expertise and to have member states follow the best practices laid out for them (Ibid: 33). The Fund's self-identified and noted expertise accords the institution great power and autonomy in prescribing and advising on sound economic policies (Barnett and Finnemore, 2004: 50). It may be that some Fund policies, like loan conditionality, are deemed by many to be a coercive tool used to change state behaviour, but constructivists add that the IMF's legitimacy and expertise also explains *why states listen* to the Fund (Barnett and Finnemore, 2004: 68).

Constructivists argue that the IMF prides itself on strong economic research that member states acknowledge to be grounded in the best economic analysis available (Ibid.; Momani, 2005a). Acknowledging the internal bargaining and learning involved in crafting IMF policies is a key feature of constructivists work. The IMF is not a puppet of political powers, as realists would contend, but rather internal actors can be strategic to garner internal support and promote external understandings such that they can effectively determine policy changes (Park and Vetterlein 2010). The IMF staff can be norm entrepreneurs in their own right and create conditions to advance their own intellectual interests. Moschella (2011) demonstrates how after the global financial crisis, the IMF scaled-up its surveillance function to be more systemic in its analysis because the Fund staff used their 'theoretical and organizational resources' from past financial crises to effectively push for enhancing the IMF's

surveillance role. Moschella refers to this as an evolutionary process of 'lagged learning'. This enhanced surveillance role for the IMF was an approach that was also consistent with many other international monetary and financial institutions' new 'holistic visions of risk'; a factor used by IMF staff to their advantage when expanding their scope of work (Moschella, 2011).

Response of and Adjusting IMF Surveillance to Recent Turmoil in the Global Financial System

> "But, like St. Augustine struggling against sin in his youthful years, they never abandoned the idea that they remained bound by a legal duty to collaborate…" – Pauly (2008)

Based on sheer volume of programs, reviews, initiatives, external audits, partnerships with other IFIs, research publications, and pilot-projects, the IMF has by any measure lived-up to calls from major political capitals and the G20 to revamp the Fund's surveillance capacity and to re-cement its centrality in the IMS. The efficacy of these undertakings, of course, remains unknown. The Fund itself admits that the reform process is an evolutionary and ongoing endeavor. But, attempt to reform - the Fund has, indeed.

As discussed earlier in the chapter, the Independent Evaluation Office delivered a series of highly critical assessments of the Fund's surveillance performance in the critical years leading up the GFC. Under the leadership of its past two Managing Directors the Fund, at least *prima facie*, appears to have taken this criticism to heart. For example, the recent 2011 Triennial Surveillance Report (TSR), reflecting on the question of "Does the Fund exercise —these rights [i.e. those outlined in its AoA] effectively the answer is no—the Fund, as the principal institution dedicated to promoting global stability, missed the most devastating crisis since the 1930s. The IMF was overconfident in the soundness and resilience of large financial institutions, downplayed the risks associated with housing booms and financial innovations…"(IMF, 2011b). Further on impediments to effective surveillance, Fund Staff highlighted the main findings of Martin Wolf's TSR External Commentary, listing the following as key contributors:

> "(i) *ignorance*—economic systems are complex and dependent on human nature, it is important to acknowledge the limits of understanding, the assumptions made, and what is being ignored; (ii) *ideology*—simplifying assumptions that become orthodoxy but are wrong (e.g., the infallibility of liberalized markets); (iii) *insularity*—a restricted perspective arising from policy orthodoxy and insular inter and intra-institutional thinking; (iv) *incentives*—that discourage consideration of ideas too far outside the mainstream; (v) *intimidation*—by powerful members that discourage truth-telling; and (vi) *impotence*—the Fund has no direct power, it only has its voice, particularly with systemic members" (IMF, 2011b; emphasis in original text; Wolf, 2011).

To what extent the Fund can overcome these sociologically, institutionally, and politically entrenched impediments remain an open question. As discussed above, several of these institutional and intellectual short-comings were flagged as far back at the Whittome Report (1996) and the Crowe Report (1999). Both of these reports, of course, came on the heels of a perceived failure of the Fund to foresee a systemic global financial event.

However, the pace with which the Fund has moved to reform its surveillance modalities is, at the very least, a positive development. Following this series of scathing reports, the Fund's new stated goal for surveillance reform is simple: make "Fund surveillance as interconnected as the global economy itself" (IMF 2011b, IMF 2011e). To operationalize this goal the IMF has focused heavily on modernizing its multilateral surveillance and adapting its divisional organization structure accordingly. According to IMF staff, the Fund has attempted to revamp its surveillance by addressing a core set of deficiencies in its pre-crisis toolbox. These are: insufficient attention to interconnections (both within and between economies); a legal framework that struggled to sufficiently integrate bilateral and multilateral surveillance and focused too heavily on exchange rates when considering spillovers; the absence of mechanisms to identity and analyze low probability but high impact events (i.e. ineffective risk assessment); insufficient attention to and expertise in financial stability analysis; an under-appreciation for the multi-faceted nature of external stability; and finally a lack of traction with member nations - itself a result of perceived unevenness in treatment of members and a lack of candid commentary on the part of Fund staff (IMF, 2012e)[15].

It is far beyond the scope of this chapter to discuss in detail all relevant post-GFC surveillance reforms (see IMF, 2012e for an overview). Instead, what will be highlighted are two important changes to the Fund's surveillance strategy that have placed the institution – particularly its newly emboldened managing director and staff – at the forefront of the *process* of establishing new norms for the international monetary system. In both of these areas the Fund has finally begun to exercise something at least approximating *firm* surveillance (as mandated in Section IV of its AoA) and slowly begun to operate as the 'ruthless truth teller' that Keynes envisioned. The first of these changes is the Fund staff's crucial involvement with the G20 Mutual Assessment Process; and the second is the new emphasis on integrating bilateral and multilateral surveillance and flagging the negative externalities generated by systemically important economies. Through both of these examples it is clear that the Fund is aiming to address the previous lack of evenhandedness in its treatment of members.

Launched at the 2009 Pittsburg G20 Summit, the Mutual Assessment Process (MAP) is a part peer-review, part multilateral surveillance mechanism crafted by the G20 to operationalize its Framework for Strong, Sustainable, and Balanced Growth (henceforth the 'Framework'). The MAP is a *collective action tool* that the G20 relies on to achieve its stated goals for the global economy. Acting under Section 2(b), Article V of its AoA, the Fund is tasked by the G20 and its Framework Working Group (co-chaired by

[15] These findings do not simply reflect opinions held by the Fund Staff. The influential Palais Royal Initiative reached broadly the same conclusions when analyzing deficiencies in Fund surveillance. Within the final report, see Boorman (2011), pgs. 83-88.

Canada and India) to provide technical assistance and independent surveillance and analysis of individual country policy frameworks and policy. In short, the Fund Staff provide the heavy lifting needed to critically assess the compatibility and multilateral consistency of country frameworks in relation to the goal of achieving strong, sustainable, and balanced growth for the global economy (English et al, 2012). Additionally, as a complement to the Los Cabos Accountability Assessment Framework (the peer-review component of the MAP), the Fund Staff generate yearly reports designed to provide candid assessment of individual countries' progress in meeting past commitments. These reports also highlight the global welfare improvements to be had from collective action. Hence, this methodology is designed to underscore *benefit sharing not simply burden sharing*[16]. Critically, it is solely the Fund Staff that report directly to G20 Leaders. The IMF Executive Board (EB) is given the opportunity to comment on reports, but it is the Managing Director and senior Staff that call the shots. Impressively, the EB is briefed at the same time as G20 Ministers – in order to insure complete G20 ownership of the MAP (IMF, 2009). Some EB members have demonstrated an interest in providing insight before Ministers are briefed, but to date this has not been allowed (IMF, 2011f).

Perhaps the most innovative aspect of the MAP is its set of 'indicative guidelines' used to assess the sustainability of macroeconomic imbalances in G20 economies. These guidelines were crafted by the Framework Working Group in close cooperation with Fund staff. Although not rules, or norms per say, the structure of the guidelines rests on the explicit recognition that domestic policy frameworks can, and very often do, have large negative externalities. Through a vigorous - though arguably opaque - analytical process, Fund staff flag individual G20 countries which demonstrate unsustainable domestic or external imbalances for an additional in-depth Sustainability Report[17]. These highly candid assessments form one of the main MAP deliverables presented at the annual G20 Leaders Summit.

A natural complement to the Fund's involvement in the MAP is its ongoing reform efforts to comprehensively integrate bilateral and multilateral surveillance and to modernize the approach it takes in assessing external stability. In both cases, improving traction with members remains an over-arching goal.

As noted in the preceding section, the Fund's AoA do not require members to change policies that, while contributing to IMS instability or generating negative externalities for other members, do not threaten their own domestic or external stability. Much like how pre-crisis financial regulation assumed that insuring the soundness of individual financial institutions would insure systemic financial stability, Fund surveillance has always suffered from a similar fallacy of composition. The complex interdependencies witnessed during the GFC finally brought this critical error to the forefront of policy discussions. This legal approach to surveillance is (of course) often highly deficient when the Fund is mandated to insure the smooth functioning of the IMS by preventing such systemic weaknesses as: "persistent significant current account imbalances, an unstable system of exchange rates including foreign exchange rate

[16] See Jenkins and Subacchi (2011) for a similar take on reframing global policy coordination and cooperation.
[17] The first round of Sustainability Reports in 2011 flagged China, the US, the UK, Germany, France, Japan, and India for possessing large imbalances. Note that not only traditional external imbalances are flagged, but also domestic ones. This represents an important step forward in the process of global economic policy coordination.

misalignment, volatile capital flows, the excessive build up or depletion of reserves, or imbalances arising from excessive or insufficient global liquidity" (IMF, 2012c). As Pauly (2008) notes, the "key normative compromise hammered out at Bretton Woods—that states were accountable to one another for the external consequences of their economic policies even as they remained politically responsible only to their own citizens." The critical problem is that the Fund was provided no legal basis for operationalizing this commitment. This internal inconsistency of the Fund's very founding charter is reflective of the inherent perennial tension between the exigencies of managing risk and monetary relations in a hype- globalized world and the continued sanctity of the principle of national sovereignty.

The recognition of these deficiencies in the Fund's mandate and tool-box resulted in a multitude of new initiatives and reforms since the GFC. Recognizing that external stability entails an examination of issues other than exchange-rates (which despite intentions to the contrary operationally became the main focus of 2007 Surveillance Decision) the Fund launched the Pilot External Sector Project in 2012. The strength of this initiative is that it "provides a multilaterally consistent analysis of the external positions of major world economies" (IMF, 2012d). In other words, it provides a snap-shot of how all of the external vulnerabilities of individual countries (and the policy distortions and market failures that give rise to these) fit together at an aggregated global level. The backdrop of the Project remains persistently large global imbalances. However, whereas the 2007 Decision resulted in excessive focus on exchange rates as the key determinates of these imbalances, the Project allows for a more nuanced and holistic approach to be taken; one that gives full play to non-exchange rate issues, such as the volatility of capital flows and the composition of national and financial sector external balance sheets (i.e. external assets and liabilities). Beyond the technical issues which characterize such undertakings as the Project, are very really political realities. The decision to move beyond exchange rate policies and reserve accumulation (which developed countries flag as the key determinates of global imbalances) to consider other determinates represents a clear victory for emerging market economies that have long argued that the root of imbalances lays also in the policy mixes of developed economies; such as excessively loose monetary policy and lax financial regulation, both of which can lead to destabilizing capital flows into and often abruptly out of developing countries[18].

Theoretical IPE views- neoliberal, realist, and constructivist perspectives- take different readings of this reform process and its expected trajectories worth noting. Neoliberals would posit that the Fund is clearly serving its purpose in providing new information and valuable analyses to its members through both the MAP and the new and extended Fund mandate and tool-box. The Fund in this view is serving as a 'commitment device' designed to overcome the time-inconsistent preferences of actors and collective action problems between actors identified in game theory. This revamped approach taken by the Fund in assessing external stability and promoting policy coordination is reflective of broader post-GFC developments in surveillance and the undertakings of the G20 through its Framework and MAP. Neoliberals would suggest that the IMF is therefore a place of reason and state compromise. Realists on the other hand would argue that these reform efforts are simply cosmetic and that real power politics

[18] The global financial crisis and the Euro Area crisis both demonstrate that concerns of abrupt capital outflows is not an issue which pertains solely to developing and emerging market economies.

underlies internal Fund dynamics. The Fund has attempted to shed its image of being beholden to the interests of its most powerful (mostly Western) shareholders. Realists, especially neo-realists, would note that shifting global economic power from the Western shareholder states to the emerging market economies explains the inability of Western powers, particularly the United States, from dictating the governance of the IMS. Consequently, the pre-crisis attempts at addressing global imbalances and perceived exchange rate misalignment has been described by Blustein (2012) as a 'flop and a debacle'. Western attempts, through the IMF, to apply the labels like 'fundamentally misaligned' to countries' exchange rates (e.g. China) proved more counter-productive than useful and ultimately distracted from the Fund fulfilling its broader mandate (IMF, 2009a). As Blustein concludes, "The umpire had better be neutral — and seen to be so — as well as unrestrained in expressing opinions." Realists would contend that the Fund remains Western dominated and its attempts to control China and other emerging market economies through the IMF will continue to be challenged when international economic power is shifting. Not surprisingly then, the IMF "fell appallingly short" in gaining the trust of countries like China during this undertaking. Neoliberals would counter, however, that emblematic of the Fund's utility in providing a forum where shifting global economic powers have a voice and say in global governance, we see the Fund launch a new series of Spillover Reports in 2011 which analyzed the negative externalities generated by the policies of the 'Systemic-5' (or S-5) countries[19]. Importantly these reports are informed by consultations of dozens of countries that may be impacted by the policy choices of the S-5.

What, if any, traction these policy reforms will generate with the Fund's membership remains an open question and may vary depending on the theoretical approach to IPE one takes. Realists see a lack of future traction in IMF reforms. This lack of traction is essentially the reality of power politics at play and the inability of international organizations to serve anything more than a fig leaf for state power quests. As noted above, the Fund's AoA only require members to change policies that undermine their own domestic stability – and by extension their own balance of payments stability. Policies such as ultra-loose Federal Reserve monetary policy or excessively large reserve accumulation by China thus are not covered by the Fund's Articles, by design of states that do not want to cede authority to the IMF. Further, the 2007 Decision inadvertently exacerbated the bias towards exchange rate policy; diverting attention from other domestic policies that can also lead to IMS dysfunction[20]. Indeed, even the major focus on balance of payments instability appears some-what anachronistic given that this is not the sole transmission channel of instability in our hyper-globalized IMS (e.g. when poor financial regulation generates powerful financial contagion across borders). Similarly, the line between multilateral and bilateral surveillance is increasingly hard to pin down. More broadly, if savings and investments dynamics are the fundamental drivers of a country's external position, then clearly an endless list of policies could affect real effective exchange rates and thereby be a source of political conflict between nations (Pettis, 2013). In short, the responsibilities and obligations of members enshrined in the Articles

[19] The S-5 includes: China, the US, the UK, the Eurozone, and Japan.

[20] Note that the Fund's AoA outlines both external and domestic stability requirements of members. The requirement on avoiding exchange-rate manipulation (i.e. external stability) is of a 'hard nature' – i.e. it is results defined (IMF, 2011b). However, requirements over domestic policies are of a 'soft' or 'best-effort' nature; hence the asymmetry in the treatment of domestic and external stability.

do not match modern economic realities. Powerful countries will continue to act in self-interested ways, just as realists would expect.

Comprehensively resolving this issue though implies further delegation of authority to the IMF – something which throughout the Fund's history powerful members have been highly reticent of allowing. But, constructivists would argue that delegation to the IMF will give IMF staff a zone of discretion in which organizational culture and other internal negotiations over key policies would ensue. In contrast, realists would not expect powerful states, particularly the United States, to ever endorse such a measure to overstep their economic sovereignty. This would require abolishing the legal distinction between bilateral and multilateral surveillance. It would require members to become legally accountable for how their policy choices (both over traditional domestic and exchange-rate polices) affect the proper functioning of the IMS. To see a neoliberal-institutionalist vision of this come true, as Haley (2012) opines (while reflecting on the comparison between today's IMS and the Bretton Woods system): "To truly restore the IMF to its premier role in the global economy, members have to agree on a set of obligations that membership in the global economy of the early 21st century requires." In this role the Fund would once again serve as a constrained discretion commitment device for its members, thereby aligning short-term and long-term incentives. This is, however, not what IMF members have delivered to date, further supporting a realist reading of IMS reforms.

What to make of the new 'Integrated Surveillance Decision' (ISD), approved by the EB on July 18th 2012, to replace a moribund 2007 Surveillance Decision? The compromise that this decision reflects will see Article IV consultations become a "vehicle for both bilateral and multilateral surveillance" (IMF, 2012c). The ISD will see a greater focus on financial surveillance, risk assessment, and most importantly spillovers. It also attempts to address the asymmetry between the treatment of domestic and external stability by explicitly recognizing that domestic policies can be just as disruptive as exchange rate policies. The Decision also includes a series of new Principles (formulated solely as recommendations) designed to provide guidance on crafting an exchange rate *and capital account management* framework that minimizes spillovers, provides a series of indicators in relation to these Principles that could prompt special consultation with the Managing Director, and provides a formal framework for instilling the logic of collective action. However, and this is the key point to made, the "Decision does not, and cannot be construed or used to, expand or broaden the scope—or change the nature—of members' obligations under the Articles of Agreement…" (IMF, 2012c). This would require a formal amendment of the AoA. Hence all the Decision does is provides clarification over "the scope of multilateral surveillance" which already exists under the AoA (IMF, 2012c). In other words, "domestic policies with spillover effects are [now] the subject of surveillance even if they have no impact on the balance of payments of the member… [These] will be discussed in the context of multilateral surveillance to the extent that they have important global spillover effects… However, in these circumstances, members would be under no obligation to modify such policies, reflecting the limited scope of members' obligations under multilateral surveillance" (IMF, 2012c; emphasis added).

Hence, the ISD simply provides structure and further avenues for collective action to the initiatives – such as the Pilot External Sector Report and the Spillover Reports – which Fund has been experimenting

with since the GFC. Rather than re-inventing Fund surveillance for 21st century, the Decision merely reinterprets existing obligations for the 21st century - a laudable step indeed; but one that ultimately falls well short of delivering what is arguably required. This slow dynamic of incremental change though is completely in line with the process of 'lagged learning' identified by Moschella (2011) and Lombardi and Woods' (2007) 'procedural adaptation'.

If the ISD works effectively and prevents further financial crises effectively, this may support neoliberal readings of the IMS. The Fund will effectively play the role of the umpire and use its comparative advantage of sharing and assessing global information in an effective way, while providing the intuitional architecture to support collective action - as it arguably did under the Bretton Woods system. However, if realists are correct, we will see continued stonewalling by powerful member states, particularly the United States, who will evade providing information that gives others any market advantage and we will see the Executive Board exert continued pressure on weaker states to divulge its economic health while the US and other powerful states remain opaque and obstructionist. Finally, if a constructivist reading of the new ISD is correct, we will see the Fund staff (re)emerge an effective norm entrepreneur promoting global monetary stability through its bilateral and multilateral advisory role.

Conclusion and Reflections

In the face of such slow incremental change, calls for a new formal set of collective obligations to promote growth and stability, and enforceable sanctions to back these up, have become a repeated theme from commentators (see among others: Palais Royal Report (2011); Truman (2010,2011); English et al (2012)). Unfortunately, as Blustein (2012) notes, the 'mulish proclivities' of sovereign states are indeed hard to tame. For policy researchers, a more modest (and arguably more pragmatic) approach though has been put forward by Siklos (2013). He argues that international policy coordination is "best achieved by allowing each member country to issue a "directive" to the international community when it is incapable or unwilling to follow the range of standards set by the international community… [Through this process] a mechanism will have been created wherein it is the country that disagrees or wishes to opt out that has to explain why it chooses this route. Under current arrangements, the burden rests largely with international institutions [to name and shame] and these can be circumvented or ignored behind the principle of sovereignty." Such a mechanism would be a natural hybrid of both the IMF's recent surveillance reform package and the G20's Framework for SSBG. Indeed these 'standards' arguably already exist in a nascent form as the MAP's 'indicative guidelines'. The major twist, as Siklos argues, would be to reframe the direction of accountability.

Even in its current form, combined with on-going voice and governance reforms, the hope remains that the ISD can serve as type of 'reset' for how member states interact with the IMF. Unfortunately, evidence to date suggests that traction over the Fund's largest members remains minimal at best (IMF, 2011b). The Fund staff in turn will need to prove that it is capable of "Foster[ing] an environment of frank and open dialogue and mutual trust with each member and will[ing to] be evenhanded across members, affording similar treatment to members in similar relevant circumstances" (IMF, 2012c).

On the academic front, research should continue to try and dissect where the IMS gets its authority and how to explain IMF decisions and policies. The global economic system is seeing a power shift from the West to the rest; how will academic research explain and hypothesize about this new realignment of power and economic interests? Additionally, investigating why the Fund's management has been increasingly willing to butt heads with some of the IMF's most influential stakeholders - over politically charged issues such as the size of fiscal multipliers and the effects of coordinated austerity, the potential efficacy of capital controls, and even the links between income inequality and macroeconomic performance - is also worthy of academic attention. The slow decline, if at all, of the United States will invariably change decision-making structures and perhaps ideological orientation of the IMF and academic analysis needs to better conceptualize these transformations. An IMF with an executive board increasingly dominated by state capitalist nations like China and Brazil and a staff, at times, willing to recommend more Keynesian-based policy proscriptions is most certainly 'not your grandfather's IMF' (Grabel, 2011). Attempting to explain this newfound agency and 'intellectual flexibility' of the Fund staff, as Paul Krugman describes it, is a highly promising area of research for economists and political economists alike. However, it is also important to flag that much of the academic work on surveillance has focused on the political and economic understanding of this issue at the global level, but it is ultimately implemented, contested, and resisted at the domestic level. Academics in IPE need to continue to better understand the domestic level of analysis and its bearings on global negotiations over the scope and function of surveillance.

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