As a result of a long-running internal debate there have been notable incremental changes to how the International Monetary Fund (IMF) treats capital controls, particularly those directed at inflows. These changes combine new acceptance of these policy instruments with an older emphasis on their negative consequences and on the desirability of free movement of capital. Policy change of this sort is puzzling from the standpoint of the existing literature on international organizations (IOs), which has thus far paid little attention to transformative incremental change associated with long-term contestation. This article departs from this tendency by drawing on insights from principal-agent theory, constructivism, and historical institutionalism to identify the conditions under which such change may originate. I argue that actors within IOs are likely to pursue incremental change by layering new policies on to old ones as a way to build coalitions and to respond to external organizational insecurity imperatives and diverse member state preferences and to internal path-dependent organizational cultural features. Over time the incremental shifts brought by layering can induce transformative rather than reproductive change because they fit with consequentialist and appropriateness behavioral logics. I illustrate this argument by investigating recent changes in IMF policy on capital controls.
The International Monetary Fund (IMF or Fund) has been subjected to longstanding criticism for encouraging governments to liberalize restrictions on international capital flows (Stiglitz 2002; Subramanian and Williamson, 2009; Gallagher et al. 2012). While the IMF became more open to the use of capital controls after the Asian financial crisis, freedom of capital movements retained an enduring appeal among many of its staff. Critics alleged that the IMF’s preference for policy adjustment suggested an implicit opposition to controls, which in turn limited the policy space of emerging market and developing economies.

Yet as a result of a long-running internal debate there have been notable changes to IMF policy, particularly with respect to how it treats capital controls directed at inflows. These changes to organizational beliefs and practices combine new greater acceptance of controls as legitimate policy tools with an older emphasis on their negative consequences and on the desirability of free movement of capital. These changes have unfolded by and large incrementally rather than through a dramatic disruption. While the changes have been gradual, they nonetheless proven transformative, culminating in an important departure from the IMF’s earlier enthusiasm for liberalizing controls. This article is the first to examine organizational changes that even some of the IMF’s critics are calling a ‘historic moment’ (Gallagher et al. 2012).

Policy change of this sort is puzzling from the standpoint of the existing literature on international organizations (IOs), which thus far has tended to focus more on the conditions that facilitate or prevent wholesale policy change while overlooking less far-reaching change accomplished through an accumulation of incremental shifts. The importance of slow, subtle long-term contestation for IO policy change does not fit with
much of the existing literature’s emphasis on abrupt turning points be it exogenous changes (economic shocks or crises, technological advances, changes in the distribution of preferences and/or power of an IO’s principals) for rationalists or endogenous constructions (crisis narratives as “critical junctures”) for constructivists. Thus, while insightful, the existing literature is ill equipped to account for this sort of long-term transformative incremental change, which features in historical institutionalist work (Hacker 2002; Streeck and Thelen 2005; Mahoney and Thelen 2009; Farrell and Newman 2010; Fioretos 2011).

There is a large literature that seeks to understand institutional and organizational processes of change.1 Much of it, however, relies – explicitly or implicitly – on a punctuated equilibrium model of change that depicts an abrupt breakdown and replacement of old arrangements. While some of this literature examines incremental change, as Streek and Thelen (2005:8, emphasis in original) observe, it tends to equate it with “adaptive and reproductive minor change.” For instance, although work on political attitudes and behaviours in transition economies and societies examines incremental institutional change, it finds that, in contrast to abrupt transformations, it largely reproduces inherited cultures from the communist experience (Mishler and Rose 2001; 2007).2 While some studies suggest incremental change is a normal aspect of what IOs do (Haas 1990; Kapur 2000), they too tend to depict it as adaptive rather than transformative. In labelling such change “organized hypocrisy,” Weaver (2008:29)

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1 Campbell (2004); Streeck and Thelen (2005); and Mahoney and Thelen (2009) provide recent reviews. 
2 Mishler and Rose (2007:823) observe, “In stable societies, where continuity is substantial and change incremental, early life socialization and later life experience may teach fundamentally the same lessons and have indistinguishable effects. By contrast, in societies undergoing abrupt transformations, discontinuities between early life socialization and adult experience provide considerably more scope for adult relearning”
suggests such change is often superficial as it reproduces underlying “theories-in use” within the organization that govern “habits of action.”

By contrast, this article investigates what Streeck and Thelen (2005:9) call “incremental change with transformative results.” These changes, which appear gradual, can culminate over time into significant institutional and organizational discontinuities. This article thus moves beyond punctuated equilibrium models and those that tend to overlook the possibility that incremental change is more than just adaptive. The argument I put forward offers a new angle toward studying policy change in IOs by combining insights from principal-agent (PA) theory, constructivism, and historical institutionalism.

From some PA theorists (Hawkins et al 2006; Copelovitch 2010) and sociological institutionalist and resource dependency approaches that inform some constructivist accounts (Barnett and Coleman 2005; Weaver 2008) I stress external factors – common agency and organizational insecurity – as providing an opportunity for change by creating and constraining political openings for mobilization and articulation of intra-organizational contestation. When member state power and preferences are dispersed under common agency, I argue that change, when it occurs, is likely to be largely driven from within IOs and yet sensitive to organizational insecurity imperatives associated with concerns about legitimacy, relevance, and resources as well as to the diversity of external power and preferences.

Drawing on constructivist insights I suggest internal factors are often crucial for understanding what shapes and motivates the agency of IO officials (Barnett and Finnemore 2004; Momani 2005; Weaver 2008; Park and Vetterlein 2010; Broome 2010).
The interplay of internal contestation and organizational culture, as constructivists suggest, helps to shape the degree to which policy change is possible. Yet in most constructivist accounts, change arises from norm entrepreneurs who, as Park and Vetterlein (2010:21) suggest, use strategic framing of “crucial events” to undermine “entrenched understandings” and “open up policy space for new norms to settle into the void.” Indeed, this emphasis on crises as critical junctures features prominently in much of the earlier literature on the IMF’s approach to capital controls (Abdelal 2007; Chwieroth 2010; Moschella 2010). Absent these endogenous constructions that engineer wholesale change constructivists see organizational cultures as exhibiting path-dependent lock-in effects that prevent meaningful change.

Here this article departs from this literature and breaks new ground by showing that the tensions present in an organization’s culture can offer greater flexibility than is often acknowledged. I turn to historical institutionalism for insights that complement and strengthen our understanding of how strategic agency-driven innovation featured in some constructivist accounts can be combined with path-dependent organizational cultural features. I thus reverse the direction of the bridge others have built between these two approaches in seeking to use ideational dynamics to rectify shortcomings in historical institutionalism (Blyth 2002; Schmidt 2008; Béland 2009).

Rather than emphasizing strategic framing of an initiative so that it resonates with existing organizational beliefs and practices, I stress layering, a mechanism that involves the active sponsorship of additions or revisions to existing organizational beliefs and practices with which they do not resonate. This compromise of old and new amends an organization’s culture but leaves its overall hierarchy of norms in place. Yet over time

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3 This conceptualization of change also characterizes much of literature on ideas (Carstensen 2011).
the new layers can attract greater support and lead old beliefs and practices to become less prominent in governing organizational behavior. This process of policy change in IOs is incremental in dynamic but the outcome is transformative in nature.

When might actors seeking change pursue layering? I address this question by identifying a set of external and internal scope conditions favoring its use, namely organizational insecurity imperatives, diverse member state power and preferences, and path-dependent cultural features. Since the far-reaching magnitude of wholesale change – what historical institutionalists call displacement - risks offending member state preferences and elements of the organization’s culture favouring the status quo, this set of conditions favours change of an incremental form. Alternatively, more timid and superficial shifts, such as changing the settings of the way existing organizational practices operate – a mechanism that historical institutionalists call conversion – risks inadequately responding to member state preferences and organizational insecurity imperatives seeking change. However, new amendments added at the margins, which may be represented as refinements to the status quo, do not directly undermine the status quo and thus do not provoke counter-mobilization from its defenders. At the same time, these new layers at least partially attend preferences of those actors seeking change. Change thus develops incrementally via layering because the conditions external and internal to IOs both enable and constrain it.

The first section of this article elaborates these arguments. The next two sections then illustrate these arguments using evidence from the IMF archives, interviews with IMF officials, and secondary sources to analyze recent understudied incremental changes to IMF policy on capital controls, particularly those directed at inflows. Layering
featured prominently as a mechanism of change for internal entrepreneurs because it responded, at least in part, to the conditions outlined above. By endorsing controls more strongly but refraining from fundamentally assaulting the long-run desirability of freedom for capital movements, layering helped to minimize internal opposition from more orthodox critics of controls and ensure the revisions would not run up against the preferences of principals more strongly in favor of capital freedom, notably the U.S., while at the same time speaking to the preferences and rising power of emerging markets who have serious misgivings about capital freedom. Layering thus helped to cement an internal reformist between those with long-standing reservations about capital freedom and those concerned about bureaucratic imperatives and organizational security. The article concludes by discussing the broader implications of the argument.

Transformative Incremental Change from within IOs

Sociological institutionalist and resource dependency approaches that inform some constructivist accounts assume that an IO’s survival depends upon its ability to mobilize critical normative and material support from its external environment (Barnett and Coleman 2005; Weaver 2008). An IO’s insecurity increases when its relevance is questioned, when key constituencies question its legitimacy, and, most critically, when these and other factors challenge its resource base. These organizational insecurity imperatives induce IOs to become more receptive to their principals preferences. Yet, as some PA theorists argue, when an IO draws legitimacy and material resources from multiple actors with diverse preferences, it can, under common agency, enhance IO autonomy (Hawkins et al. 2006; Martin 2006; Gould 2006; Copelovitch 2010).
While insightful, these external factors tell us little about what preferences IOs will pursue given autonomy. Here constructivists have advanced arguments with reference to how organizational culture shapes staff preferences (Barnett and Finnemore 2004; Momani 2005; Weaver 2008; Park and Vetterlein 2010; Broome 2010). Most recent constructivist work, including that exploring the IMF’s earlier approach to capital controls (Chwieroth 2010; Moschella 2010), explores how policy change can occur from within when internal entrepreneurs re-construct organizational cultures through strategic framing (Jabko 2007; Weaver 2008).

Intra-organizational contestation has at least two bases; one bureaucratic, the other ideational (Barnett and Finnemore 2004).\(^4\) Bureaucratic-minded actors within IOs are strategically concerned with organizational mandates and imperatives. Public choice scholarship, for instance, suggests the IMF staff face bureaucratic incentives to engage in rent-seeking behavior to maximize their power, autonomy, and budgets (Vaubel 1996; Dreher and Vaubel 2004). The IMF staff also face organizational imperatives to maintain good relationships with country officials. As Woods (2006:58) observes, “The risk of adverse analysis is that a government would simply close off access.” This would not only prevent the IMF from performing most of its functions but it could also damage the career prospects of the staff members responsible for relations with that country. According to a 2008 internal staff survey, such imperatives have tended to act as a constraint on candor with staff citing the need to preserve quality relationships with country officials as a key reason for taking a less critical view of policy choices than may have otherwise been warranted (IMF 2008).

\(^4\) The two are not mutually exclusive in the sense that actors can have mixed motives for engaging in intra-organizational contestation.
Ideational commitments are another source of intra-organizational contestation. Ideationally-committed norm entrepreneurs are strategically concerned with seeking to build broader support for their beliefs. Differences in staff professional training are often a key source of subcultures with IOs and thus varying ideational commitments. These subcultures develop as individuals from different professions or the same profession but with different training are recruited into an organization. Recruits can bring with them different norms or different interpretations of the same norm that may conflict with those of other staff from different professions or with dissimilar training (Weaver 2008; Chwieroth 2010).

While PA theorists and constructivists have started to map out important contours of change, their conceptualization of change itself, with its tendency to dichotomize the forms of change as either wholesale displacement (present) or stasis (absence), remains unnecessarily limited. For instance, as Nielson and Tierney (2003:241) suggest in their PA analysis of the World Bank’s environmental policy reforms, initially, “Bank policy did not waver” in refusing to address environmental considerations. However, once the Bank’s principals resolved their policy disagreements, the organization adopted “sweeping institutional reforms and significantly altered its lending portfolio by increasing environmental lending and decreasing projects that caused environmental harm.” Weaver (2008:108) provides a similar depiction in her organizational culture-oriented analysis of the Bank’s adoption of a governance and anti-corruption agenda that “lay dormant until 1995.” As suggested, other work on IOs attends to the possibility of incremental change but tends to equate it with adaptive minor change.
As a consequence, we know little about alternative forms of policy change. In recent years historical institutionalists have done the most to identify the transformative potential of incremental change (Hacker 2002; Thelen 2004; Streeck and Thelen 2005; Mahoney and Thelen 2009). In these accounts, where long-term contestation occurs within path-dependent structures, layering features prominently as a mechanism of change. Reformers work around institutional and political obstacles by incrementally adding revisions to existing institutions and avoiding directly assaulting them. These shifts can set in motion dynamics that produce deep transformations of institutional arrangements.

The integration of privately funded tax-free retirement accounts into existing public-funded pensions exemplifies layering as a mechanism of change (Hacker 2002; Thelen 2004). Instead of displacing or constructing resonance with existing institutions, which had become locked in via path-dependence, reformers worked around defenders of the status quo by adding new elements. Over time the cumulative effect of this incremental change created a new institutional reality that undermined public provision of pensions.

These actions illustrate a form of change largely neglected in the literature on policy change in IOs, one that is more agent-oriented than slow-moving path-dependent changes and more long-term and transformative than short-term tactical adaptation that feature in other accounts of IOs (Haas 1990; Kapur 2000). Indeed, these incremental changes can be potentially path-departing in the sense that they may culminate in the creation of a profoundly new normative reality by changing the types of policies an IO sanctions. Moreover, this mechanism of entrepreneurship, which entails an act of
reconstruction through the addition of new policies to contrasting existing ones, differs from strategic framing, which is largely an act of reinterpretation or representation where actors use language to evoke a match between new and old policies. While layering may start with framing, what makes it distinct from framing is there little resonance between new and old policies.

I argue layering is most likely to materialize in IOs in the presence of three conditions: organizational insecurity, dispersion of member state power and preferences, and path-dependent cultural features. When organizational insecurity co-exists with dispersed member state power and preferences, it enables internally driven change while prompting it to remain sensitive to member state preferences and organizational survival imperatives. Path-dependent cultural barriers then constrain how intra-organizational contestation induces change, but at the same time tensions within an organization’s culture, like those within institutions (Pierson 2004: ch 4), make it open to debates about interpretation and application thus providing space for change (Jabko 2007; Clift and Tomlinson 2012). Layering provides internal entrepreneurs with a way to respond to these opportunities and constraints.

Under this set of conditions, layering can induce incremental change if internal entrepreneurs can demonstrate that their initiative may be used to enhance the legitimacy, authority, and resources of an IO and respond, at least in part, to a diverse set of member state preferences without fundamentally assaulting its culture. By holding out the potential to ease organizational insecurity while navigating diverse member state preferences, layering permits coalitions to form within IOs between ideationally-committed norm entrepreneurs strategically seeking to build broader support for their
beliefs and bureaucratic-minded actors strategically concerned with organizational mandates and imperatives. Principals and IO staff accept incremental change not only because it responds to material resource imperatives and has relatively low perceived costs but also because it speaks to broader legitimacy and authority concerns. Layering thus induces change because it fits with consequentialist and appropriateness behavioural logics.

This view of layering differs the understanding present in the existing literature in a number of ways. First, it departs from constructivist accounts that see organizational insecurity and cultural barriers as either inducing IOs to engage in “avoidance” and “organized hypocrisy” (projecting the appearance of conforming to external demands but continuing to do business as usual) or reconstruction of their external normative environment so that is more consistent with organizational goals (Barnett and Coleman 2005; Weaver 2008). While layering may lead to avoidance, organized hypocrisy, or to strategic social construction of an IO’s external environment, the argument here offers an alternative empirical expectation: entrepreneurs may also seek to reconstruct their internal normative environment so it responds both to their commitment to change and to the challenges posed by organizational insecurity and diverse member state preferences.

This view of layering also differs from international relations scholarship from rationalist institutionalists (Aggarwal 1998; Koremenos et al. 2004) and historical institutionalists (Fioretos 2011) that focuses on states and their political expediency motivations. While historical institutionalists are typically more pessimistic than rational institutionalists that layering generate efficient outcomes, both approaches tend to depict
it as a pragmatic state response to problems of bargaining and equilibrium selection where the costs of incremental change are perceived to be lower than wholesale change.

While not denying the importance of such considerations, the account here goes beyond this consequentialist logic by also linking layering to broader legitimacy and authority concerns. The argument, with its emphasis on intra-organizational contestation, contrasts with the state-centrism of these approaches. What makes layering attractive to intra-organizational entrepreneurs is the way it offers a strategic response to opportunities and constraints associated with organizational insecurity, dispersed member state power and preferences, and path-dependent organizational cultural features. In the following sections, I illustrate this argument to recent IMF policy changes regarding capital controls.

**Controlling Capital before the Crisis**

Capital controls were the norm in most economies for much of the early post-war era (Helleiner 1994). At Bretton Woods the right of governments to use controls was institutionalized in the IMF’s Articles of Agreement. In the early post-war era, the IMF and most policymakers and economists viewed controls as essential and legitimate policy tools. Yet in the 1980s and 1990s, important developments took place that led the IMF to identify freeing capital flows as desirable, at least in the long run. Although liberalization was not encouraged indiscriminately or uniformly, capital freedom became the new orthodoxy in the IMF (Abdelal 2007; Chwieroth 2010; Moschella 2010).

The general orientation of the IMF was to argue against controls as an appropriate policy tool in managing capital flow volatility. Controls were said to harm economic performance, create severe distortions, prolong unsound policies, invite evasion, and
delay policy adjustments needed to address the underlying factors driving capital flows. Controls were also held to be ineffective in stemming exchange rate pressures and curtailing capital flight.

Controls on outflows were subject to particularly strong opprobrium, especially when they were introduced in a relatively liberalized setting. Emblematic of this orientation was the IMF’s initial interpretation of Malaysia’s introduction of controls on outflows to cope with the turmoil associated with the Asian financial crisis. From the IMF’s perspective the controls were likely to prove ineffective and offer a poor substitute for policy adjustments and structural reforms. The staff believed the controls would damage Malaysia’s credibility, making it an international financial pariah and creating difficulties in accessing capital markets in the future (IMF 1998:6, 18; IEO 2005:46). According to the IMF’s managing director (Camdessus 1997), the measures were counterproductive and “a sure-fire way to send the herd scrambling for safer pastures and set back efforts to restore confidence.”

Yet despite this general consensus on controls on outflows, there were some sharper differences among the staff as to how to treat controls on inflows (IEO 2005). One group within the IMF applied the same arguments to inflow controls as they did to outflow controls. This group gave little consideration to the possibility that controls could help address financial stability risks. In fact, liberalization of inflow controls was seen as a useful way to increase the efficiency of the domestic financial system by introducing competition and best practices from abroad (Guitian 1996). However,

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another group within the IMF offered sympathy, even encouragement, for temporary limits on inflows in the presence of domestic distortions that could not be easily removed, most notably weak or poorly regulated financial sectors. This group framed temporary and non-discriminatory price-based inflow controls (i.e. taxes and tax-like instruments) as “prudential measures” to safeguard fragile domestic financial systems from capital flow volatility (Calvo et al. 1993).

Emblematic of this internal debate was varying interpretations of Chile’s price-based limits on inflows used for much of the 1990s. The first group saw these measures as an unsound attempt to avoid adjusting monetary and exchange rate policies and as introducing greater distortions. This group focused more on information indicating the relative ineffectiveness of the measures in slowing down the volume of inflows, providing monetary policy independence, and preventing real exchange rate appreciation. However, the latter group was sympathetic toward the measures and emphasized information indicating the effectiveness of the measures in altering the composition of the inflows toward less risky liability structures and thus minimizing financial vulnerability (Schadler et al. 1993:19 23).

This debate continued until the late 1990s when enthusiasm within the IMF reached its peak just as financial turmoil started to engulf East Asia in 1997. An attempt was made to amend the IMF Articles of Agreement that would have committed governments to removing their existing controls and required IMF approval for re-introducing them. However, amidst the wave of emerging market crises in the late

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7 Chile—Staff Report for the 1994 Article IV Consultation, SM/94/172, 6 July 1994 (IMF Archives), pp. 3, 4, 8
1990s enthusiasm for capital freedom waned and the initiative to amend the Articles failed.

The IMF subsequently became more cautious in supporting openness based on orderly sequencing. However, rather than wholesale displacement of support for capital freedom, the Fund began incrementally to change its policy. In the wake of the Asian financial crisis the staff became more open to the use of temporary and non-discriminatory price-based controls on inflows to address financial stability risks (IEO 2005; Abdelal 2007). With Malaysia’s experience during the Asian financial crisis providing evidence that controls on outflows could prove effective, if only in select circumstances, some staff also became open to accommodating these measures as providing breathing space for policy adjustments (IEO 2005). Despite these changes, controls, whether applied to inflows or outflows, were still largely viewed within the IMF as exceptional measures permissible in poorly defined circumstances, and even then strong reservations were offered (IMF 2007a; 2007b). As one report observes, “While capital controls might have a role in certain cases, they should not be seen as a substitute for sound macroeconomic policies that include a prudent fiscal stance and a supporting exchange rate and monetary policy framework, as well as appropriate prudential measures” (IMF 2007a:12). Thus, while the Fund began to show greater recognition of the risks posed by removing controls, the organization did not fundamentally alter its norm hierarchy that prioritized the long-run desirability of capital freedom.

**Controlling Capital since the Crisis**

Rather than constituting wholesale change in response to a disruptive event, recent IMF policy changes have been rooted in this long-term intra-organizational
contestation. Staff harbouring reservations about capital freedom had gradually and unevenly been pushing back for some time those who opposed controls unequivocally. The recent changes mark an important further shift in IMF policy with controls, particularly those on inflows, receiving greater acceptance.

After the initial onset of the crisis in summer 2007, emerging markets faced a sudden stop and reversal of capital inflows driven by global deleveraging. In response, a number of governments imposed controls on outflows, which the Fund accommodated, as it had done in some countries since the Asian financial crisis (Ghosh et al. 2009:9; World Bank-IMF 2009). The temporary reintroduction of controls on outflows, a recent staff report concludes, “can be useful mainly in crisis or near crisis conditions, but only as a supplement to more fundamental policy adjustment” (IMF 2012:1). A series of staff reports released since the onset of the crisis also make frequent mention of the protective role of these policy measures (Grabel 2011a). In a significant departure from past operational practice, the Fund even endorsed controls on outflows as part of its loans to Iceland, Latvia, and the Ukraine (IMF 2009a).

While these changes have been notable, it has been the Fund’s position on inflow controls that has seen more transformative incremental change. Previously, the Fund had left poorly defined the circumstances under which it would sanction inflow controls, and given its traditional insistence on policy adjustment, stood accused by critics, including some former senior staff, of implicitly opposing their use (Subramanian and Williamson 2009). However, recent policy changes identify these circumstances with much greater specificity while at the same time broadening the array of restraints sanctioned by the IMF.
Restraints on inflows have been given renewed currency since late 2009 when capital surged back into emerging markets, raising macroeconomic and financial stability risks associated with exchange rate appreciation, inflation, and asset bubbles. In response, a number of emerging markets have imposed controls. Initially, the IMF continued with its post-Asian financial crisis orientation of accepting these measures, while offering strong reservations about their effectiveness and failing to specify the circumstances under which it might constitute such restrictions to be a legitimate policy response. IMF management (the Managing Director and Deputy Managing Directors) – which Abdelal (2007) depicts as largely responsible for providing policy leadership in this area – sent particularly mixed signals; on the one hand offering sympathy to policymakers facing inflow surges, and on the other hand, stating it would not recommend controls as a standard prescription because of their costs (Guha 2009; Reuters 2009).

In February 2010, without much initial clear policy leadership from management, the first signs of new revisions to the staff position on inflows emerged in the Monetary and Capital Markets (MCM) and Research (RES) Departments. These departments, which have primary responsibility for producing IMF studies that contribute to new thinking about international capital markets and the world economy more broadly, housed a number of staff ideationally committed to change. A paper jointly written by staff from these departments reveals an important shift in thinking, arguing, “There may be circumstances in which capital controls are a legitimate component of the policy response to surges in inflows” (Ostry et al. 2010:15). Examining the policy options for emerging markets facing inflow surges, the paper first takes note of the Fund’s standard
prescriptions: exchange rate appreciation, fiscal consolidation, reserve accumulation, and tightening prudential regulation. Then, departing from past practice, the paper explicitly specifies the circumstances under which the IMF would find inflow controls acceptable; that is, where a country facing an inflow surge had an appropriately valued currency, sufficient reserves and prudential regulation, and no additional room for fiscal tightening. While these circumstances may seem rather limiting, a subsequent MCM and RES staff report suggested they would prove to be not all that rare (Ostry et al. 2011). Such arguments, as discussed below, provided important intellectual support for changes in operational practices in terms of advice to member states.

Signs have also emerged that some staff have further revised their earlier confidence in the intellectual foundation for liberalizing controls. The MCM and RES staff paper points to evidence that “the use of capital controls was associated with avoiding some of the worst growth outcomes associated with financial fragility” (Ostry et al 2010: 5). These paper also raises “concerns that foreign investors may be subject to herd behavior, and suffer from excessive optimism, have grown stronger; and even when flows are fundamentally sound, it is recognized that they may contribute to collateral damage, including bubbles and asset booms and busts” (Ostry et al 2010: 4).

Adding to arguments made in 1990s that had provided a tentative basis for accepting some limits on capital mobility, the firm conclusion of MCM and RES staff papers has been that controls proved useful in altering the composition of capital flows toward less risky liability structures and thus reduced financial fragility (Ostry et al. 2010; Ostry et al. 2011). These changes have not been confined to the MCM and RES departments. In their interactions with country officials the area department staff
responsible for operational relations with Latin America and Asia have drawn on and cited these arguments in accepting the recent use of controls in their respective regions (Eyzaguirre et al., 2011; Pradhan et al., 2011).

The MCM and RES staff also pushed for further revisions to the IMF’s limited acceptance of controls only if they were temporary, non-discriminatory, and price-based (Ostry et al. 2011). In their view, more enduring inflows, because of the threat they pose to financial stability, may require controls of a longer-term and administrative (i.e., outright prohibitions and quantity-based measures) nature. “Where inflows mainly raise financial-stability concerns,” the MCM and RES staff observed, “controls can…include administrative measures, and can be used against more persistent inflow surges” (Ostry et al. 2011:6). In addition, since some measures aimed at minimizing financial instability from currency mismatches reasonably discriminate between local-currency and foreign-currency liabilities, and the latter are more likely to be owed to foreigners than the former, the MCM and RES staff have pressed for less priority to be given to non-discriminatory measures.

Explaining Policy Change

The crisis. What accounts for these important policy changes? Not, it seems, a dramatic punctuation in which the financial crisis alone disrupted organizational stasis with displacement. These policy changes, though more transformative than those after the Asian financial crisis, have been more incremental than wholesale. Indeed, many of the same staff reports providing greater endorsement of controls also show evidence of the organization’s long-standing concerns “that the use of capital controls needs to take account of multilateral considerations, as well as their costs and the mixed evidence on
their effectiveness in restraining aggregate flows” (Ostry et al. 2011: 4; see also Ostry et al. 2010; IMF 2010c; 2010d). That the IMF has gradually transformed, but not displaced, its earlier policy is also evident in its emphasis that controls are a “useful element in the policy toolkit” only if “the available policy options and prudential measures do not appear to be sufficient or cannot provide a timely response to an abrupt or large increase in capital inflows” (IMF 2010c: 4; see also 2011a; Ostry et al. 2010; Ostry et al. 2011).

This punctuated model of change also cannot satisfactorily account for the resilience of staff support for the long-run desirability of capital freedom even in the face of the worst crisis since the Great Depression. The disruptions brought by the crisis are precisely the kind of events that many scholars would expect to be central in stirring abrupt change, even if, in a Bayesian sense, actors had strong prior beliefs. Instead, an IMF (2009b:8) staff report on the crisis concludes, “Surely, the lesson is not that capital flows should be sharply curtailed.” While approaching it in a cautious manner, the IMF’s recently released “institutional view” still assumes liberalization as the end goal (IMF 2012b).

The crisis did help empower those within and outside the IMF with long-standing reservations about capital freedom, and restore the IMF’s relevance without resolving challenges to its legitimacy and resource base. But the crisis was more an accelerator of a pathway latent within the organization rather than a determinant of it. Without the crisis, IMF policies would have, in all likelihood, continued to evolve along the same pathway, but this process would have been slower and likely more contentious. Put differently, without the underlying policy pathway, the crisis alone would have produced changes more abrupt than they truly were.
**Member states.** These changes also did not stem from member states alone. Rather, to use Gallagher (2012:1) language, the changes largely result from “some innovative economists within the Fund” responding to organizational insecurity imperatives but in a way not dictated solely by member states. The decade since the Asian financial crisis brought the IMF heightened organizational insecurity alongside greater dispersion in the power and preferences of its principals.

The gradual shift in economic weight in the world economy, which the crisis accelerated, contributed to this dispersion of power and preferences. The convening of the Group of Twenty (G-20) leading advanced and emerging market economies, rather than the G-7, to set the post-crisis agenda, best symbolizes this shift. For many emerging market officials, the IMF’s intrusive conditionality and failures in managing crises in the late 1990s added to their long-standing grievances about its policy bias toward advanced countries, and its outdated governance structure, which failed to provide them with voting rights congruent with their economies’ enhanced and fast-growing weight.

These grievances heightened the IMF’s organizational insecurity by challenging its legitimacy, relevance, and resource base (Woods 2006). In the decade following the Asian financial crisis, those emerging markets that could do so pursued measures, such as reserve accumulation, regional liquidity arrangements, and early repayment of outstanding debts, to reduce the influence of the IMF. The IMF thus found itself with a list of clients consisting primarily of poorer developing countries and with increasing irrelevance in resolving pressing issues, like global imbalances.

Bargaining over IMF governance reform occurred between advanced and emerging market economies for much of the decade following the Asian financial crisis.
Modest reforms giving emerging markets greater voting rights were agreed in 2006 and 2008, but fell well short of what these economies perceived as necessary to restore the IMF’s legitimacy. In early 2008, with its legitimacy seriously eroded and demand for its loans at a near record low, the IMF found its resource base challenged, forcing it to downsize its staff and develop a new income model that relied less on revenue from lending.

In 2007 and much of 2008 with the crisis generally confined to advanced economies, the IMF found itself largely irrelevant to resolving it. But when the crisis intensified and spread to emerging markets in autumn 2008, it revitalized the IMF’s relevance and triggered near record demand for its loans that outstripped its lending capacity. In April 2009, the G-20 reaffirmed the IMF’s central place in crisis management and agreed to a significant boost in its lending resources to meet demand by borrowing $500 billion from select member states. Nearly one-fifth of these new resources came from financial commitments from officials from several large reserve-holding emerging markets, including Brazil, Russia, India, and China. Emerging markets made similar financial commitments when an additional $456 billion was raised in 2012 to support IMF rescue efforts in Europe. While these commitments were not conditional on specific governance reforms, Brazilian and Chinese officials made it clear they perceived a clear link between the two (Grabel 2011b).

In October 2010, the G-20 and IMF Board of member state representatives agreed to a landmark reform of IMF voting weights to give a bigger voice to emerging markets. Over six percent of IMF voting power will be transferred to underrepresented countries at the IMF, with China becoming the country with third-largest share of votes, and Brazil,
Russia, and India taking a place among the fund’s 10 biggest shareholders. In addition, European member states have agreed to cede two of their eight seats on the 24-member IMF Board, which will presumably go to emerging or developing economies.

Historically, their limited voice in the organization, and status as an actual or potential borrower, has constrained emerging market influence within the IMF. But now many emerging markets now no longer have a serious prospect of borrowing from IMF; on the contrary, it is now the IMF and advanced economies that face the reality of borrowing from them. These developments undoubtedly have given greater weight to the long-standing grievances of emerging markets that threatened the Fund’s organizational security.

Yet while these organizational insecurity imperatives accelerated the pace of IMF policy change these external factors alone were not the source or sole reason for it. To be sure, some of the Fund’s policy changes have advanced the long-term preferences of emerging markets. But like the crisis, external changes to member state power and preferences reinforced, but did not dictate, a pathway that was already latent, even if not dominant, with the organization. If these external changes alone had been the primary source and reason for the policy shift, then these changes, would have, in all likelihood, produced a policy shift that was more abrupt than the evidence suggests. Without these external changes, IMF policies would have likely continued along the same pathway laid out since the Asian financial crisis, but the process would have been slower and likely more political fraught.

In fact, these organizational insecurity imperatives co-existed with greater dispersion in the power and preferences of the IMF’s principals that enabled it to act
more autonomously and prevented emerging markets from dictating outcomes.\footnote{These diverse preferences are revealed clearly in IMF Executive Board Discusses Liberalizing Capital Flows and Managing Outflows, Public Information Notice (PIN) No. 12/42, 4 May 2012 and IMF Executive Board Discusses The Liberalization and Management of Capital Flows – An Institutional View, Public Information Notice (PIN) No. 12/137, 3 December 2012.} The emerging market preference for using capital controls without limitation clashed with the preferences of those G-7 countries, particularly Britain and the U.S., more favourably inclined toward capital freedom. Among G-7 countries the crisis sharpened long-standing differences in emphasis, with Franco-German scepticism of capital freedom increasingly at odds with Anglo-American preferences for limiting the scope for using controls.

This greater dispersion developed alongside an erosion of confidence in pre-crisis financial regulation. Policymakers increasingly turned to new ideas, most notably a macro-prudential regulatory philosophy aimed at limiting the build-up of systemic risk and the macroeconomic costs of financial instability (Baker 2012). As opposed to the pre-crisis micro-prudential focus on protecting the integrity of individual financial institutions, markets, and instruments, an important element of this new philosophy prioritizes the creation of new counter-cyclical regulatory tools.

The IMF staff’s greater emphasis on the potential positive impact of controls on financial stability partly drew on this philosophy to represent them as a macro-prudential tool that could help counter-cyclically restrict excessive inflows that tended to expand domestic credit growth and leverage, and preceded financial crises. This policy change occurred as early as spring 2010 without instructions from member states. Indeed, despite the relatively rapid acceptance of the macro-prudential regulatory philosophy, the G-20 was slow to endorse this framing. It was not until November 2010 that the G-20
discussed capital flows within its macro-prudential regulatory agenda. Even then the G-20’s (2010) instructions were limited, asking the IMF and other international bodies for “further work on macro-prudential policy frameworks, including tools to help mitigate the impact of excessive capital flows.”

Power and preference dispersion among its principals have meant instructions to the IMF have been limited to requests for further analytical work rather than specific policy directions. American preferences - which prioritize policy adjustment and non-discriminatory prudential measures (Geithner 2011) - have been a key reason the G-20 has failed to provide a more robust endorsement of controls. Enduring U.S. influence has been reflected in official IMF (2011a; 2012b) reports requiring member state approval as well G-20 (2011) communiqués, both of which have been less supportive of controls of a longer-term and discriminatory nature than IMF staff reports. Without clear instructions from member states on formal IMF policy, the staff had greater autonomy to set the organization’s policy direction, albeit on an informal level (IMF, 2010e: 4).

Change from within – Bureaucratic and Ideational Origins. Factors and processes internal to the IMF tell us much about how the staff responded to organizational security imperatives and dispersed member state power and preferences. Organizational insecurity imperatives meant bureaucratically-motivated actors, namely IMF management and staff in the Strategy, Policy, and Review Department (SPR) responsible for helping to set the organization’s strategic direction, were increasingly receptive to initiatives that held out the prospect of strengthening the organization’s legitimacy, relevance, and resource base (Woods 2006). Since the onset of the crisis, the IMF’s Managing Director Dominique Strauss-Kahn had deftly spearheaded efforts to restore the
organization’s relevance in crisis management and to boost its resources. Yet for many emerging market officials the IMF needed to do more to enhance its legitimacy, particularly after its handling of financial rescues in Europe in 2010-2011 aroused perceptions of favouritism and led to requests from the organization for additional financial contributions from emerging markets (Prasad 2011).

Bureaucratic imperatives thus motivated some IMF officials to offer a stronger endorsement of controls because it presented a way to convince emerging markets that the organization was taking their preferences seriously. Evidence for this is found in the increasing frequency with which the SPR staff identified the IMF’s policy changes as “part of a broader effort...to preserve evenhandedness;” that is, seeking to lessen the perception of bias towards the interests of advanced countries (IMF 2011a: 3). In a further effort to demonstrate its openness to emerging market preferences, the IMF arranged a series of high-profile conferences, such as one in Indonesia in March 2011 and another in Brazil in May 2011, to consult their views on managing capital flows.

Greater dispersion of power and preferences among IMF principals made it easier, particularly after the onset of the crisis, for those staff harbouring long-standing reservations about capital freedom to press their views more forcefully and to form coalitions with more bureaucratic-minded actors. As a prominent figure from France’s Socialist Party, Strauss-Kahn’s moderately interventionist instincts may have also made it easier for these coalitions to form. These coalitions are evident in the working relationships that developed within the Fund between long-standing sceptics of capital

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9 In May 2011, Strauss-Kahn, facing criminal charges, resigned from his position.
freedom found in MCM and RES and those more bureaucratic-minded actors found in SPR and in some area departments where, as discussed below, staff faced bureaucratic incentives to refrain from being overly critical of government policy choices so as not to jeopardize their relations with country officials. One SPR report on controls for instance, indicates it was prepared by a team “under the guidance of” senior officials from SPR and the area department responsible for relations with Asia, and received “valuable inputs” from several prominent sceptics of capital freedom in the MCM and RES (see below), and “benefitted” from additional staff analysis conducted by area departments responsible for relations with Latin America (IMF, 2011a:3n1). These working relationships enabled these actors to work toward developing a common policy position.

Sceptics of capital freedom, who were particularly prevalent in MCM and RES, emerged and received support from intellectual developments within the economics profession and the IMF. Since the emergence of the efficient markets hypothesis in the 1970s, most financial economists converged on the view that since financial markets were “efficient” in that market actors employ “all available information” in determining asset prices, markets could be left unfettered to make Pareto-efficient decisions and supervise themselves (Fourcade 2009). However, macroeconomists – who form the bulk of the IMF staff – were more divided in their views about the extent to which they placed faith in market rationality and efficiency.

Some macroeconomists, particularly those at “freshwater” inland U.S. universities, essentially argued for an idealized neoclassical vision of the economy consisting of rational individuals interacting in perfect markets. Other macroeconomists, most notably those at “saltwater” economists in coastal U.S. universities, were willing to
deviate from the assumption of perfect markets and perfect rationality, or both, by adding some nominal rigidities and labor market frictions such as “sticky” prices. Yet this latter group of macroeconomists, who often described themselves as New Keynesians, generally kept deviations from the neoclassical ideal as limited as possible, sanctioning on second-best grounds temporary intervention in the presence of market errors. More importantly, the state-of-the-art macroeconomic models used for policy analysis – the dynamic stochastic general equilibrium model (DSGE) – failed to incorporate financial frictions that could lead the economy to deviate from the neoclassical theoretical ideal. Thus, despite differences in emphasis, among macroeconomists there was a general consensus on how to conduct macroeconomic policy (Blanchard et al. 2009).

Nonetheless, New Keynesianism provided an important intellectual foundation within the IMF for skepticism about the case for free movement of capital. As noted, as early as the 1990s some staff saw domestic financial fragility as legitimating on second-best grounds the use of controls on inflows. In the wake of the Asian financial crisis, further intellectual support came from academic studies providing greater empirical evidence for the effectiveness of controls on inflows, though evidence for the effectiveness of controls on outflows for the most part remained inconclusive.11

IMF research after the Asian financial crisis also raised skepticism about removing controls. Among the most prominent skeptics at the cutting-edge of IMF research have been longtime and now senior staff members Karl Habermeier (in MCM) and M. Ayhan Kose and Jonathan D. Ostry (in RES). Since the Asian financial crisis one or more of these staff members has been involved in some capacity with much of the IMF research that has taken a more critical view about removing controls. Kose and Ostry, for

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11 For a review, see Magud et al. (2011).
instance, helped to draft a series of papers that cast doubt on the positive effects that capital freedom was supposed to have on economic growth and financial stability, particularly in countries that failed to meet specific institutional thresholds (Prasad et al. 2003; Kose et al. 2006; Dell’ Ariccia et al. 2008). Habermeier took part in producing papers that analyzed the linkages between liberalization and financial instability (Ishii and Habermeier 2002) and that provided evidence for the effectiveness of controls (Ariyoshi et al. 2000). Thus, many of those staff leading the IMF’s recent policy changes have been writing sympathetically about controls for some years prior to the recent crisis.

The onset of the crisis unleashed further skepticism within the IMF and the economics profession, triggering an ongoing re-examination of economic orthodoxy. Crucially, Olivier Blanchard – who Krugman (2011) has called a “salt-water macroeconomist extraordinaire” – was appointed as the Fund’s chief economist and RES director in September 2008. Blanchard, whose professional stature provided him with significant authority within the Fund, helped to strengthen the position of skeptics of capital freedom by convening a series of high-profile papers and conferences re-examining economic orthodoxy (Blanchard et al. 2009; IMF 2011b). The crisis, Blanchard and others have argued, exposed the intellectual deficiencies in economic models and policies based on beliefs that held markets to be rational and efficient (Krugman 2009; Brunnermeier 2010). Among the key aspects of orthodoxy that no longer hold, Blanchard has argued the crisis showed financial regulation was not macroeconomically neutral, and thus policymakers needed macro-prudential tools to manage the build-up of leverage and risk in the system. Separately, Blanchard (2011)
and Habermeier and colleagues (2011) circulated notes urging other staff to consider the macro-prudential role of controls when scrutinizing member state policies (see also IMF 2011c).

A rethink has also been underway within financial economics. As Krugman (2009) observes, “What’s probably going to happen now – in fact, it’s already happening – is that flaws-and-frictions economics will move from the periphery of economic analysis to its center.” Prior to the crisis few economists were attracted to the insights of behavioral economists, an approach, harkening back to Keynes, that stresses the limitations of market rationality and efficiency and uses social, cognitive, and emotional factors to understand how market actors make economic decisions (Akerlof and Shiller 2009). However, since the crisis some IMF reports have implicitly featured these insights in expressing concerns about asset bubbles even when capital flows appear fundamentally sound (Ostry et al 2010; 2011). The limitations of market efficiency and rationality also feature in staff reports that have helped to develop the new welfare economics of capital controls. This new literature suggests unstable capital flows to emerging markets can be viewed as negative externalities on recipient counties because individual investors and borrowers fail to consider what the effects of their decisions will be on financial stability. Thus, rather than portraying controls as causing negative spillover effects, it suggests they can correct market failures and make markets work more efficiently (Korinek 2011).

While the crisis has prompted much of this rethink, contrary to what a punctuated model would expect, the Fund’s culture, which prioritizes first-best policy prescriptions, helped to lock in ideational obstacles that made wholesale displacement difficult.
“Legitimiz[ing] the view that foreign capital count be potentially harmful” was, as one prominent former staff member observes (Subramanian 2009), “a view with which the IMF did not want to be associated.” Indeed, as suggested, capital freedom still shows an enduring appeal among some staff.

Internal cultural obstacles thus made it difficult for entrepreneurs to directly assault capital freedom. Staff reports therefore sanctioned controls but only as a policy tool of last resort after other available policy options proved inadequate. Yet these cultural barriers did not induce “avoidance” or “organized hypocrisy” or prevent path-departing change, as some approaches would expect. Instead, as discussed below, tensions within the IMF’s organizational culture provided some flexibility for intra-organizational contestation to introduce additional transformative revisions.

**Layering.** As is often the case with layering (Streeck and Thelen 2005:23), many of these revisions have been presented as refinements of existing practices that accepted temporary controls as exceptional measures for prudential reasons. MCM and RES staff targeted cultural tensions within the IMF to add new policy arguments and develop new operational practices (discussed below) that broadened the acceptance of controls on a macro-prudential basis, while at the same time stressing the benefits of openness (IMF 2010c, 2010d, 2011a, 2011b; Ostry et al. 2010). As Ostry and others note (Ostry et al. 2010:15), “the perspective of this note is thus that capital controls are a legitimate part of the toolkit to manage capital inflows in certain circumstances, but that a decision on their use should reflect a comparison of the distortions and implementation costs that they may impose and the benefits from regaining macro policy control and reducing financial fragility.” Ostry and others went on to suggest developing a “multilateral framework
governing the reimposition of controls, balancing the various considerations, could be helpful in managing possible cross-country spillovers.”

Another transformative revision has come in the area of macroeconomic management where the Fund has long insisted on exchange rate adjustment in response to inflow surges. In contrast to U.S. officials, the Fund staff have departed from their earlier approach by showing a much greater willingness to sanction the use of controls to respond to inflow surges that threaten exchange rate appreciation and a loss of competitiveness. As Ostry and colleagues note (Ostry et al. 2010:6, emphasis in original), “On the macroeconomic front, the concern is that the surge will lead to an appreciation of the exchange rate and undermine competitiveness of the tradable sector—possibly causing lasting damage even when inflows abate or reverse…Can such concerns justify the imposition of controls on capital inflows—not only from the individual country’s perspective, but also taking account of multilateral considerations? The answer is yes—under certain circumstances” (see also IMF 2011a; Ostry et al. 2011). In an effort to lessen the stigma attached to controls, the IMF also now increasingly refers to them as “capital flow management measures” – a label typically used only by more heterodox economists prior to the crisis (Eyzaguirre et al. 2011; Habermeier et al. 2011; IMF 2011b; Pradhan et al. 2011).

In line with the argument, actors seeking change pursued layering because it responded, at least in part, to organizational insecurity, dispersed principals’ power and preferences, and organizational cultural features. By endorsing controls more strongly but avoiding a full assault on the long-run desirability of capital freedom, layering minimized opposition from actors more strongly in favor of capital freedom, notably the
U.S., while at the same time appealing to the preferences of emerging markets who have serious misgivings about capital freedom. In doing so, it helped to create an internal coalition between more ideationally-committed norm entrepreneurs found primarily in MCM and RES and those more bureaucratic-minded actors located mainly in SPR and the area departments. Layering helped cement this coalition because it provided greater organizational validation for those with long-standing reservations about capital freedom while holding out the prospect of easing organizational insecurity without seriously offending member state preferences or the organizations’ culture.

Layering appealed to area department staff because it was consistent with their bureaucratic imperatives to refrain from being overly critical of government policy choices so as not to jeopardize IMF relations with country officials. A stronger endorsement of controls made it easier for staff responsible for regions, such as Latin America and Asia, to be more accommodative toward the introduction of controls in response to financial instability and macroeconomic risks, thus reducing the risk of adverse analysis (Eyzaguirre et al. 2011; Pradhan et al. 2011). Not surprisingly, a recent survey finds that 84 percent of officials from large emerging market economies believe the IMF’s advice on capital controls has improved as a result of these policy changes (Prieur 2013:103). In addition to shifts in organizational beliefs, transformative incremental changes thus also have occurred in operational practices as reflected in staff interactions with member countries.

Such changes are also reflected in the development of new arrangements, including a new framework for policy advice and institutional view. These arrangements offered more bureaucratically-motivated actors, particularly management and the SPR
staff, the prospect of enhancing the IMF’s mandate and authority (IMF 2010a; 2010b; 2010e; 2011a). As one SPR report puts it, “in the aftermath of the global crisis, and especially now with resurgent capital flows requiring a considered policy response, it is not tenable for the Fund to remain on the sidelines of a debate so central to global economic stability” (IMF 2010f:3). Building on the suggestion from Ostry and colleagues, the SPR staff began an effort to develop a new multilateral framework to minimize negative policy spillover effects – an initiative that received support from France when it held the presidency of the G-20 in 2011.

In developing the framework, the IMF staff produced a series of reports on liberalization, on inflows and outflows, and on the multilateral aspects of regulating capital flows. The exercise brought together MCM, RES, and SPR staff who saw the potential to position the IMF to engage in work on how to best design capital controls to minimize their negative spillover effects, as well as to aid coordination in enforcing controls between originators and recipients of capital flows (IMF 2010a; 2010b; 2010e;, 2011b; Ostry et al. 2010; 2011).

However, at the behest of emerging markets, the IMF framework does not constitute formal guidelines aimed at limiting their ability to impose controls (G-24 2011). Moreover, in analysing the policies of advanced economies from where the bulk of capital flows to emerging markets originate, IMF (2011d; 2012b) reports requiring member state approval stop short in endorsing the emerging market policy position that advanced economies should actively consider regulating their outflows to temper capital flow volatility.12 The institutional view, released in December 2012, brings together these transformative changes, but as historical institutionalists expect from layering, the

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12 Ostry et. al (2012), which did not require member state approval, takes a contrary view.
result has been what some observers (Grabel 2011) describe as “policy incoherence” due to its greater acceptance of controls alongside an insistence the capital freedom is the end goal for policy.

**Conclusion**

As the IO at the centre of global financial governance, these IMF policy changes are quite significant. These incremental changes appear as transformative rather than reproductive, with even the IMF’s critics acknowledging them to have led the organization to “make history” (Gallagher et al. 2012). Yet scholars have yet to explore these important developments.

Existing scholarship on the IMF’s approach to capital controls also overlooks the key mechanisms and processes outlined here; instead, largely focusing on the role of member state influence, policy leadership from management, and staff personnel configurations and efforts to engage in framing (Abdelal 2007; Chwieroth 2010; Moschella 2010). Although intra-organizational contestation features in these accounts, this article strengthens our understanding of it and ideational change by developing a new way to combine path-dependent cultural features with strategic agency. In doing so, it advances our understanding of how the IMF defines norms of financial governance, thus facilitating “seeing like the IMF” (Broome and Seabrooke 2007).

More broadly, this article furthers our understanding of IO policy change in a number of important ways. First, it explores an important but largely understudied form of policy change that is more incremental and less punctuated than much of the literature acknowledges. This change also has been shown to be more agent-oriented than slow-
moving path-dependent changes and more long-term and transformative than short-term reproductive adaptation present in many other accounts.

Second, while other recent scholarship notes that policy change often occurs incrementally within IOs (Clift and Tomlinson 2012; Moschella 2012), this article strengthens our understanding of it by identifying a set of scope conditions when it is likely to occur. Using insights from historical institutionalism, it also breaks new ground by exploring layering, a mechanism previously neglected in existing accounts of policy change originating from within IOs. In doing so, the argument here departs from constructivist accounts suggesting cultural path-dependence and organizational insecurity typically generates “avoidance” or “organized hypocrisy” (Barnett and Coleman 2005; Weaver 2008). The argument here also provides a broader understanding of layering than is currently present in international relations scholarship; that is, one that is less state-centric and where legitimacy concerns play a role alongside consequentialist ones.

Third, this article contributes to the literature on informal governance of IOs. This literature shows how IO behavior is often shaped by what occurs in the shadow of formal organizational features (Stone 2011). Yet, while insightful, the study of informal governance remains unnecessarily state-centric, focusing largely on how powerful countries intervene in organizational decisions through informal processes and procedures to further their geopolitical and economic interests. This article broadens our understanding of informal governance by providing an important case where staff behavior helped shape IO behavior on an informal level.

Finally, by systematically exploring how explanatory factors external or internal to IOs combine to shape outcomes, this paper follows a small body of scholarship (Barnett
and Coleman 2005; Nielson et al. 2008; Weaver 2008) that breaks from much of the literature that asserts the primacy of either set of factors. For scholars of IOs, the evidence here reveals an even greater need for developing explanations that consider a range of factors to understand what motivates policy change in IOs. Neither the IMF’s external or internal environment alone can convincingly account for the policy changes. Yet, in combination, these two factors, and rationalism, constructivism, and historical institutionalism more generally, offer a more fruitful way of understanding IO behaviour.
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