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Jeffrey R. Chwieroth. Capital Ideas – The IMF and the Rise of Financial Liberalization. Princeton: Princeton University Press, 2010.

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Since its inception at the end of World War II, the IMF has played a role in virtually every economic event of global significance. The Fund has carried out its basic mandate of overseeing the international monetary system and ensuring exchange rate stability to mixed reviews. Few critics of the IMF would quibble over the organization's stated goals—some may even deem them as noble. The bulk of the criticism has centered around the implementation of the goals (and, from some quarters, the perceived lopsided nature of the Fund's governance structure).

In his book *Capital Ideas – The IMF and the Rise of Financial Liberalization*, Jeffrey M. Chwieroth provides the best inside view of the international organization that an outsider can offer. Chwieroth, who is a senior lecturer in the Department of International Relations at the London School of Economics and Political Science, does not attempt to address the entire range of IMF policies and activities. Rather he focuses on the Fund's official position and its policies, both official and informal, concerning capital controls and capital account liberalization. More precisely, Chwieroth highlights the divergence that exists between official IMF policy and the informal behavior of the IMF staff with respect to capital account liberalization, and then spends the better part of the book describing the organization's inner workings and explaining the processes by which the divergence developed (and by extension the processes by which the normative standards of any international organization may shift over time).

Chwieroth notes in his introduction, “[T]here was a great deal of what principal-agent (PA) theorists call ‘slippage’ between formal IMF rules and the staff’s actions, with many staff members in the 1980s and 1990s encouraging liberalization even though the formal rules to this day give member states the right to use controls. In fact, the initiative to amend the Articles in the late 1990s was in large part an exercise in empowering the staff with more tools to encourage a policy that many of them had already been promoting informally for nearly a decade” [page 9]. This “slippage” between formal rules and staff behavior occurred through five intraorganizational processes that Chwieroth identified in his research: professionalization, administrative recruitment, adaption, learning and norm entrepreneurship.

Principal-agent theory provides the most obvious framework for examining the operation of individual actors within an organization, and Chwieroth reviews the essential concepts. The basic principal-agent problem arises when the individual actor, or agent, has incentives that differ from those of the principal. The typical solution is that the principal must create some incentive structure that better aligns the agent's incentives with the principal's goals, or else the principal must engage in costly monitoring of the agent's behavior. Principal-agent theory may offer a suitable starting point for analysis but, as Chwieroth notes, “PA theorists help us to understand why normative change might be driven by agents rather than principals. But PA theory is less helpful in accounting for the processes that shape how IO [international organization] preferences form and change. It is not that PA theorists do not expect IOs to possess autonomy, but rather that they generally fail to explain adequately what preferences IOs will pursue and how these preferences will change given their autonomy” [p. 29].

Many readers would likely be surprised to learn of the relatively high degree of autonomy and influence enjoyed by the IMF staff. The staff's autonomy and influence derive primarily from its role in agenda-setting, which was formalized in the 1950s and early 1960s. The staff

members prepare all the recommendations presented to the IMF board. Some member states may express their preferences through informal contact with staff members, but the contents of the recommendations are largely generated by the staff. This situation exists partly due to the Fund's bureaucratic division of labor but primarily due to the fact that country consultations, loan negotiations and the lot require a level of expertise most board directors and their staff do not possess. For developing nations, some of which may only devote limited resources to IMF relations, the constraint is even more binding. Contributing to the staff's autonomy is the on-site nature of much of the staff's work. Chwioroth notes, "On-site missions...enable the staff to gather extensive data and perform sophisticated econometric analysis, which they in turn employ to support their recommendations. The staff members are sometimes the best and only available source of data on a country, and they often acquire information on the condition that they do not disclose it to other member states. By contrast, most directors are political appointees with a relatively higher rate of turnover than the staff and therefore with comparatively less knowledge or experience with which to challenge the diagnoses and prescriptions of the staff" [p. 32].

With the case clearly made that the preferences and attitudes of staff form much of the basis of IMF operating procedure (if not official policy), Chwioroth next probes for the sources of the staff's preferences and attitudes. Not surprisingly, he finds that many of the core beliefs, and thus the norms, of the Fund staff originate from the economics profession. Although many in the profession consider it an objective social science based on theory and evidence hard-won through the scientific process, Chwioroth rightly points out that there is much human interpretation involved in the field. "Even the most ostensibly positive models of economic behavior are saturated with normative and ethical implications...Just as medical doctors are taught to value human life above other goals, economists are taught normative conceptualizations about how economies should be organized" [p. 42]. The process of administrative recruitment only serves to reinforce the staff norms. Empirical evidence suggests that the Fund's commitment to English as a working language has led to a preponderance of staff members who graduated from institutions in English-speaking countries. More concerning than the homogeneity among staff members with regards to language is the obvious intellectual homogeneity. Adaptation and learning play a role in shifting normative beliefs as well, but even these important processes are affected by interpretations that rest largely on prior training and beliefs.

Since the influence of the economics profession—and especially of the particular "brand" of economics taught in English-speaking universities—plays such a prominent role in shaping the Fund's operating procedures, it is worthwhile to examine the profession's attitude toward specific policies or instruments. Chwioroth, as mentioned early on, focuses on capital controls. He identifies eight separate schools of economic thought and reviews the tenets of each as they relate to capital freedom. Through the use of original survey data he identifies a link between these eight schools of thought and the professional training Ph.D. students receive in particular academic departments. According to the empirical evidence, economics departments that impart a favorable view of capital freedom tend to produce graduates who have a bent towards financial liberalization. He also uses original survey data to "establish a link between these schools of thought, professionalization, and subsequent beliefs held by actors.

Chwioroth spends several chapters in *Capital Ideas* tracking the IMF's history with special emphasis on the staff's changing attitudes toward capital controls and the processes (professionalization, administrative recruitment, learning, adaptation, or norm entrepreneurship) through which normative beliefs either changed or remained unchanged during each time period.

He concludes by tracing the changes that occurred through the spring of 2009 due to the IMF's approach during the financial crisis. It is potentially a time of profound normative change for the organization. Since the crisis there has been new support for regulation aimed at financial market participants in developing nations, with the Fund staff calling for an expansion of financial regulations to include all institutions that contribute to a systemic risk. Further, the staff members, recommend that financial institutions be regulated based on their functions and activities rather than their legal form (i.e., investment bank versus insurance company, etc.) Despite the likelihood that increased regulation of financial markets will occur worldwide, the IMF is unlikely to abandon the norm of capital freedom anytime in the near future. Although Chwioroth points out that the Fund's interpretation of the norm has shifted to some degree.

More organizational behavior than international economics, *Capital Ideas* is an important contribution to the literature on IO governance. Although a basic knowledge of open-economy macroeconomics would be useful in understanding the book's focal point, the book's real substance is its analysis of intraorganizational norms, both in terms of how such norms originate and how they come to change over time. Chwioroth's many insights are certainly most applicable to the IMF, and secondarily to IOs in general; however, while reading *Capital Ideas* one cannot help but feel that Chwioroth's ideas might very well be applicable to all such bureaucratic organizations in which the agents share a common academic background and happen to possess more knowledge and experience than the principals who are overseeing them.

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