The Making of Neoliberal Globalization: Norm Substitution and the Politics of Clandestine Institutional Change[1]

Alexander E. Kentikelenis
Bocconi University

Sarah Babb
Boston College

Since the 1980s, neoliberal policies have been diffused around the world by international institutions established to support a very different world order. This article examines the repurposing of the International Monetary Fund (IMF) to become the world's leading promoter of free markets. Social scientists commonly point to two modes of global-level institutional change: formal and fundamental transformations, like renegotiated treaties, or informal and incremental changes of a modest nature. The case of the IMF fits neither of these molds: it underwent a major transformation but without change in its formal foundations. Relying on archival material and interviews, the authors show that fundamental-yet-informal change was effected through a process of *norm substitution*—the alteration of everyday assumptions about the appropriateness of a set of activities. This transformation was led by the United States and rested on three pillars: mobilization of resources and allies, normalization of new practices, and symbolic work to stabilize the new modus operandi. This account denaturalizes neoliberal globalization and illuminates the clandestine politics behind its rise.

The onset of the neoliberal era toward the end of the 20th century represented a profound break in assumptions about economic policy and the role

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of the state. Rather than emphasizing the failures of markets, the new view suggested that government failure was the most pressing problem—one that could be fixed by economic liberalization (Sewell 2009; Evans and Sewell 2013). To the extent that markets could fail, they were expected to automatically adjust (Chang and Grabel 2004). The ambitions of this political-intellectual project were global in scope and entailed what social scientists now identify as key tenets of neoliberal globalization: reduced role of the state in production, free movement of goods and capital, and deregulation of economic activity (Sassen 2010; Centeno and Cohen 2012; Evans and Sewell 2013).

The early adopters of neoliberal policies were Western governments—most importantly, the United States under President Ronald Reagan and the United Kingdom under Prime Minister Margaret Thatcher—and some Western-backed authoritarian regimes in developing countries like Chile and Argentina (Harvey 2007). Yet, the more widespread diffusion of neoliberal policies to the developing world proceeded rapidly from the 1980s onward through a variety of social processes, such as policy imitation, the learning of new ideas, or the desire to be "competitive" (Meyer et al. 1997; Drori and Meyer 2006*a*; Simmons, Dobbin, and Garrett 2008; Schofer et al. 2012; Broome and Seabrooke 2015; Broome, Homolar, and Kranke 2017). Coercion was also a key diffusion mechanism: powerful global institutions could use their resources to leverage free-market reforms (Chase-Dunn 1998; Simmons et al. 2008; Reinsberg et al. 2019).

There is a little-appreciated paradox hidden behind the global ascendancy of neoliberalism: this new policy agenda was forcefully and successfully diffused by old institutions that were set up to support a very different world order. The best-known examples of institutions repurposed for neoliberalism include the General Agreement on Tariffs and Trade (GATT), the World Bank, and the International Monetary Fund (IMF). All three had been pillars of the post–World War II "embedded liberal" regime, designed around Keynesian economics and the use of the state to pursue full employment

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(Ruggie 1982). Yet, these pillars of the world economic order would later be refashioned to become the most prominent agents of neoliberalism (Chorev 2005; Sassen 2014; Babb and Kentikelenis 2018).

This paradox points to a broader question for scholarship on global change—namely, how can established international institutions be repurposed to serve new goals? Two strands of research offer different insights into how change occurs in the world polity, where stability and inertia are key features (Shanks, Jacobson, and Kaplan 1996; Drori and Meyer 2006*b*). On the one hand, much scholarship in international relations focuses on formal, fundamental institutional changes negotiated among states; for example, in the form of new organizations or renegotiated treaties (Koremenos, Lipson, and Snidal 2001; Jupille, Mattli, and Snidal 2013). On the other hand, global and transnational sociologists, as well as sociologically inspired political scientists, have often drawn attention to informal, incremental change; this commonly entails ideational shifts that remodel established institutional arrangements more modestly (Park and Vetterlein 2010; Broome 2013; Hironaka 2014).

However, the case of the IMF fits neither of these molds. The fund is one of the most powerful international organizations due to its status as lender of last resort for countries in financial turmoil (Halliday and Carruthers 2007). It was established in 1944 on the belief that free markets often fail (Chang 2006; Babb and Kentikelenis 2018), and its creators embedded into its founding treaty the principle of being neutral to the political, economic, and social objectives of its members (Finch 1983; Swedberg 1986). In the mid-1980s, the IMF was dramatically transformed from an organization with a mandate restricted to stabilizing exchange rates, to the world's leading promoter of market-liberalizing reforms through its unassumingly named "structural adjustment programs" (Summers and Pritchett 1993; Toye 1994). Puzzlingly, this transformation occurred without a formal renegotiation of its charter or operational guidelines. Scholars have pointed to the United States as the major change agent pursuing the repurposing of the IMF (Sassen 1998, 2010, 2014; Babb and Buira 2005; Panitch and Gindin 2013), but we lack a comprehensive explanation of *how* this occurred.

In this article, we identify and elaborate on a hitherto untheorized form of global-level institutional change. We posit that fundamental-yet-informal change in the world polity can be effected through a process of *norm substitution*—the alteration of everyday assumptions about the appropriateness of a particular set of activities. Rather than relying on the conspicuous politics of formal-institutional transformations (such as renegotiating treaties and forming new organizations), aspiring change agents can pursue their desired goals by stealthily and strategically instituting new norms to underpin altered practices. Such de facto but not de jure institutional change preempts overt contestation or lengthy negotiations and masks underlying politics through symbolic work. In other words, these processes are clandestine, taking place away from public scrutiny that would undesirably politicize issues intended to appear apolitical and technocratic.

We rely on the case of the IMF to elaborate on how international institutions can be fundamentally repurposed while leaving the letter of their rules intact. To empirically trace these processes, we collected over 8,500 pages of newly declassified documents from the archives of the IMF and former U.S. treasury secretary James Baker and conducted interviews with key officials. We show that, as the leading change agent, the United States bypassed established procedures for changing the IMF's formal charter and guidelines. Instead, the United States opted to pursue a subtler institutional transformation strategy that altered the organization's operational norms. The strategy rested on three pillars: the mobilization of resources and allies, the normalization of new operational routines, and symbolic work to stabilize the new modus operandi. This approach enabled the United States to profoundly alter the IMF's activities while avoiding politicization associated with formal change. In this way, a new institutional order was born; the old, modest IMF assistance for currency stabilization gave way to all-encompassing structural adjustment programs that fundamentally reshaped developing countries' economies, thereby diffusing free markets around the world.

By documenting the clandestine but consequential politics of change at the IMF, we advance academic debates on the political and organizational foundations of the rise of neoliberal globalization (e.g., Chorev 2005, 2010; Harvey 2007; Mirowski and Plehwe 2009; Panitch and Gindin 2013; Slobodian 2018). Our analysis draws attention away from overt processes of change and toward uncovering the political and covert construction of seemingly apolitical normative shifts at the global level. We show that the emergence and institutionalization of the structural adjustment agenda at the IMF—a key vehicle for the worldwide diffusion of neoliberal policies—was accomplished by strategic and sequential expansion of IMF practices to a growing array of policy domains, including those formally precluded by the unchanged organizational mandate.

INSTITUTIONAL CHANGE AND THE RISE OF NEOLIBERAL GLOBALIZATION

"The [International Monetary] Fund has its four commandments," complained a prominent Chilean economist in 1988: "Get your prices right, balance your budget, open up the economy and privatize. All at the same time" (*New York Times* 1988). These market-oriented policies were the most important economic policy norms exported by the IMF to the Global South in the 1980s (Fourcade-Gourinchas and Babb 2002; Henisz, Zelner, and Guillén 2005; Dobbin, Simmons, and Garrett 2007; Fairbrother 2014). The vehicles for the diffusion of such policies were the organization's conditional loans: in order to access IMF resources, developing countries in economic trouble had to pledge to implement a steadily lengthening list of market-liberalizing reforms, including privatizing state-owned industries, liberalizing trade, and deregulating domestic economic activities.

The IMF's advocacy of such policy measures was a profound departure from the organization's long-established norms and written guidelines. How could the fund have been repurposed in such a way? At first, the story sounds familiar: sociologists have long documented the tendency of organizations to deviate from their original missions through processes of goal displacement, co-optation, and mission creep (Michels 1915; Selznick 1949; Messinger 1955; Zald and Denton 1963). More recent work from historical institutionalists invites us to consider the different ways that policy institutions change gradually and incrementally. One variety of gradual change is "institutional conversion" as a process through which old rules are reinterpreted over time to serve new purposes (Thelen 2003; Mahoney and Thelen 2010).[2] A series of small changes of this sort can add up to a major transformation.

Yet, our case departs from these familiar accounts in some fundamental ways. For one thing, the IMF's transformation in the 1980s was not gradual but extraordinarily rapid—once launched, it was mostly complete within three years and thoroughly institutionalized within five. For another, the fund's new practices were not novel reinterpretations but had long been explicitly viewed as illegitimate and contrary to the organization's mandate, by technocrats and member-governments alike.

More broadly, major international organizations—and the institutional orders they underpin—cannot be easily converted to assume radically different missions. These are privileged loci for creating global rules and norms (Barnett and Finnemore 2004; Jupille et al. 2013; Block-Lieb and Halliday 2017), having a formal basis in thoroughly negotiated international treaties and entailing active involvement by a host of states. As a result, stability and inertia are key features of the world polity (Drori and Meyer 2006*b*): institutional orders lock in power asymmetries and create powerful vested interests in status quo maintenance (Koremenos et al. 2001). Changes to the external environment need not translate to corresponding transformations in organi-

[2] This line of theorizing posits that institutional change through conversion is contingent on high degrees of discretion in interpreting institutional content (i.e., low clarity in rules) and on a political context characterized by weak veto possibilities (Mahoney and Thelen 2010, p. 28). Applied to the world polity, these are strong assumptions, as clarity in rules is often high (e.g., codified in international treaties) and veto possibilities are strong (e.g., due to the power of even seemingly weak actors to block or stall change; see Kentikelenis and Seabrooke 2017).

zational practices, which can take many years to materialize (if at all). Indeed, the world polity is rife with organizations that, despite environmental pressures, resist adaptation and nonetheless remain relevant actors (Shanks et al. 1996; Chorev 2012). This is because creating organizational alternatives is a lengthy, costly, and uncertain process, and abandoning a focal organization altogether makes global coordination considerably more difficult (Jupille et al. 2013).

Given such formidable barriers to changing the organizational infrastructure of the world polity, how can global institutional transformations occur? Two social-scientific research traditions offer distinct explanations. Scholarship in international relations—particularly the rationalist variant—has often focused on *formal and fundamental change*. These accounts acknowledge that radical changes to the formal foundations of international institutions occur infrequently; amendment of multilateral treaties or abandonment of international organizations is rare. But, to the extent that changes happen, they are permeated by power politics: actors—most commonly, states—seek to shape the direction of formal-institutional change by reliance on different political, economic, ideational, or military resources, and power is exercised in prolonged negotiations between multiple governments that routinely have different views and interests (Gruber 2000; Mattli and Woods 2009; Büthe and Mattli 2011; Jupille et al. 2013; Helleiner 2014).

In contrast, world polity theory and sociologically inspired, constructivist theories of international affairs point to the dynamics of *informal and incremental change*. These accounts shift analytical focus away from the formal alteration of rules, charters, or guidelines and instead focus on norms as possible instruments of institutional transformation (Finnemore and Sikkink 1998; Momani 2005; Weaver 2007, 2008; Park and Vetterlein 2010; Schofer et al. 2012; Broome 2013; Best 2014; Hironaka 2014). To be sure, like rationalist international relations scholars, these authors also accept the mostly stable nature of the world polity (Drori and Meyer 2006*b*), with norms acting as stabilizers (Clegg 2012). But this does not preclude institutional change: normative models specify "legitimate goals and putative 'best practices,'" and they can be challenged by new models that have "stronger theories of collective good, with better articulations of the taken-for-granted elements of developing world culture, and with more elaborate international organizational carriers" (Schofer et al. 2012, p. 63). Here, behind change are bureaucrats, experts, and professional communities "enacting" such normative models (Meyer et al. 1997; Broome 2010; Schofer et al. 2012). Importantly, these accounts link informal, normative strategies to incremental, moderate institutional transformations (A. Baker 2013*a*, 2013*b*; Broome 2013; Moschella and Tsingou 2013); that is, they take the form of incomplete shifts, where practices are adjusted but without a fundamental break from established arrangements. Rather than overt power politics, the role of ideas is crucial: a social learning process—in which old ideas are partly and haphazardly replaced by new ones—underpins institutional change (Hall 1993; A. Baker 2013*a*).

In short, whereas much scholarship in international relations would lead us to expect high politics of formal-institutional change, sociological accounts would point to the informal and more moderate refashioning of established arrangements that is commonly premised on underlying ideational shifts. Each perspective contributes to our understanding of institutional change in the rise of global neoliberalism. In line with the international relations approach, the repurposing and subsequent transformation of the GATT into the World Trade Organization (WTO) in 1994 was a fundamental, formal-institutional change hammered out among states (Chorev 2005). In contrast, the transformation of the World Bank more closely matches sociological approaches: in the early 1980s, management and staff began diverting more resources to loans for market-liberalizing policy reforms (Babb 2009). This policy was fostered by the changing ideas within the World Bank and did not require a change in mandate; at a time when mainstream economists agreed that market liberalization was good for development, it was easy to justify the promotion of such liberalization by the world's leading development institution (Wade 2001, 2002; Weaver 2008).[3]

However, the transformation of the IMF during the 1980s cannot be adequately explained by these approaches. Unlike the GATT-WTO transition, it occurred without altering the fund's charter or guidelines. Unlike the changes within the World Bank, the IMF's shift reflected a major institutional transformation that put the organization into an entirely new line of business. In other words, this case points to the possibility of global institutional change that is *both informal and fundamental*.

How can international institutions undergo radical change while their formal mandates remain unchanged? We argue that, in lieu of altering the letter of the rules, change agents can pursue a strategy of norm substitution—the shifting of routine expectations about the appropriateness of particular practices. In contrast to formal rules appearing in charters and guidelines, norms are not commonly codified in documents; rather, their stability depends on social expectations. Such expectations can be changed, and—by

[3] When World Bank management asked its Executive Board in 1980 to approve a new type of loan that would be tied to economic policy reforms, the new lending facility was quickly approved. Although there were disagreements about how the facility would work in practice, there was no question as to whether such lending fell within the organization's mandate: the World Bank was a development organization and, as such, a legitimate purveyor of development policy advice. Indeed, such policy-based lending for development had already been in operation within the organization for decades and made up a small but significant part of the World Bank's portfolio (Mosley, Harrigan, and Toye 1995, pp. 27–28; Kapur, Lewis, and Webb 1997, pp. 510–11).

extension—activities once considered deviant can, through repeated application, come to be accepted as normal (see Vaughan 1996).

Our approach also extends neoinstitutionalist arguments on decoupling that specify how new organizational policies become separated from everyday practices, which continue relatively unscathed (Meyer and Rowan 1977; Bromley and Powell 2012). Norm substitution can be interpreted as decoupling in reverse: rather than trumpeting the adoption of new practices while quietly continuing business-as-usual, norm substitution enables the emergence and institutionalization of novel practices clandestinely, while maintaining the pretense that nothing has changed. This strategy is particularly applicable to international institutions that are resistant to change, whether due to hard-to-amend formal foundations, consensus-based decision making structures, or multiple potential veto points. In short, the pretense of formal continuity can mask substantially altered practices.

We synthesize different strands of institutional scholarship to identify different tactics that actors may use to pursue norm substitution. The first is the *mobilization* of allies and resources by socially skilled actors who draw on social networks, political and economic capital, and cultural tools to build coalitions for changing an institutional order (Fligstein 1997, 2001, 2008, p. 244; DiMaggio 1988). This initial and crucial step inevitably has different manifestations depending on the characteristics of the institutional structure to be altered and on the veto players potentially involved. The lack of such mobilization may easily derail change attempts, even if these originate from structurally powerful actors. For instance, the United States has long sought the reinterpretation of "anti-dumping" clauses in the WTO treaty but has not garnered support for its preferred interpretation from any other major stakeholders within the organization (Mavroidis and Prusa 2018; Payosova, Hufbauer, and Schott 2018).

Second, actors may engage in *normalization*, in which deviant practices are introduced strategically and expanded gradually, so as to stimulate habituation with a minimum of resistance. Here, we propose a novel application for Vaughan's (1996) theory of deviant organizational behavior. In both its original and subsequent usage, the "normalization of deviance" is treated as an unintended pathology—a problem of entropy that must be solved for order to be restored. For example, the concept has been used to explain corrupt organizational practices (Ashforth and Anand 2003), inadequate patient-safety standards in hospitals (Banja 2010), or project management failures (Pinto 2014). In contrast, we suggest that such normalization can be a deliberate tactic by actors seeking to construct a new institutional order in an unobtrusive manner. That is, change agents can develop legitimating discourses and practices that frame emergent practices as "normal" and fully compatible with established arrangements, thereby defusing challenges by defenders of the status quo who draw attention to deviance.

Third and finally, sustained *symbolic work* aids the stabilization of the emergent institutional order by evoking belief systems, particular logics or universally accepted goals (Suddaby and Greenwood 2005; Halliday, Block-Lieb, and Carruthers 2010). In other words, drawing on "existing cultural and linguistic materials to narrate and theorize change" (Garud, Hardy, and Maguire 2007, p. 962) enables agents to link altered practices to dominant culture (Snow and Benford 1992; McAdam, McCarthy, and Zald 1996), thereby bolstering the legitimacy of institutional change. Relying on this conceptual apparatus, we examine the IMF's spectacular yet clandestine transformation into the world's foremost promoter of neoliberal reforms.

RESEARCH DESIGN

Our study focuses on the rise of structural adjustment in the IMF in the 1980s, "an era bounded by the playing out of certain well-defined processes" (Tilly 1984, p. 14). Our starting point is 1979, when the IMF first revisited the appropriate policy content of its lending programs. The relevant debates serve as backdrop to the organization's repurposing in the mid-1980s. We end our analysis in 1988, by which point the transformation of the IMF was complete. Selecting a 10-year period can set the stage for an unwieldy account, yet this time frame is essential for fully elaborating on the mechanics of the shift: only by examining parallel and mutually informing processes can we yield nuanced explanations (Campbell 2004).

Decision Making at the IMF

A brief digression is necessary to outline how decision making within the IMF works, as it diverges from the one-country-one-vote processes of many intergovernmental organizations (Martinez-Diaz 2009). The IMF is governed on a day-to-day basis by a resident Executive Board, composed of member-state representatives (known as executive directors) who have unequal voting rights. This board—akin to a shareholder company's board of directors—has substantial authority over organizational decision making and is chaired by the organization's managing director (MD), who cannot vote but can exercise significant influence. In the 1980s, the board was composed of 22 directors: seven represented the fund's large shareholders (the United States, Britain, Germany, France, Japan, Saudi Arabia, and China) and were selected by their governments' financial authorities, and the remaining directors represented "constituencies" of 4–23 countries.

Each executive director commands a voting share weighted by the size of the economies he or she represents. Consequently, high-income countries hold the most votes. The U.S. Treasury is the IMF's largest shareholder

(19.3% of votes in 1985), and—in addition to its formal influence—the United States wields disproportionate leverage over the fund due to such factors as geographical proximity (both are located in Washington, D.C.) and the credible threat of withholding approval for increases in resources (Babb 2009; Halliday and Carruthers 2009). After the United States, industrialized European countries and Japan hold large voting shares. Developing countries have the least formal influence (e.g., Mexico commanded a mere 1.3% of voting shares in 1985).

In practice, however, voting rarely takes place and decisions are reached by consensus, understood as "the absence of explicit, significant and strong dissent" (Portugal 2005, pp. 90–91). Consensus formation occurs through board deliberations based on research notes and discussion papers submitted by the IMF's bureaucracy, after approval by the MD and rigorous internal review. In cases of disagreements over policy, the MD is responsible for constructing the widest possible agreement among executive directors. This can include scheduling multiple board meetings and instructing IMF staff to draft reports that seek to bridge disagreements, a practice that allows developing countries to exercise influence larger than their voting shares (Portugal 2005, p. 91). This process may last several years and is not always successful: for example, the board debated IMF policies vis-à-vis the (de)regulation of capital movements for nearly 15 years before abandoning the effort following developing countries' objections (Kentikelenis and Seabrooke 2017). Even in cases of disagreement, the proceedings are diplomatic and cordial (rhetorical understatement is common), as some executive directors—especially those from developing countries—are wary of the potential repercussions (e.g., for IMF lending decisions) of being too critical (IEO 2008*a*, 2008*b*).

In addition to chairing board meetings, the MD heads the IMF bureaucracy and makes decisions over senior staff appointments. According to convention, the MD is European and the First Deputy MD—the second-in-command—is American. Most fund staff are divided between area departments (e.g., African or Western Hemisphere) and functional departments (e.g., Fiscal Affairs or Research). As part of their day-to-day duties, staff prepare studies and recommendations on their areas of focus for the Executive Board (de Vries 1985, pp. 963–1000).

Data and Methods

We draw on archival documents from multiple sources relating to the period under study. First, we collected a range of material from the IMF archives: transcripts of 36 board debates (1,053 pages in total); 29 background documents, analyses, and proposals prepared by IMF staff for the board (1,968 pages); and over 5,000 pages of internal correspondence between staff and management or other internal documents (i.e., not intended for board perusal). To identify these documents, we searched the IMF archives' inventory for the following keywords: "structural adjustment," "Baker Plan," "Baker Initiative," "debt strategy," "conditionality," "supply side policies," and "growth-oriented adjustment." We read all the documents and identified key themes (e.g., "mandate," "guideline/s," or "Articles of Agreement"). Further, board transcripts—the richest source of data for our purposes—were amenable to software-aided content analysis. We digitized all transcripts and inputted them into Atlas.ti, where we assigned codes along two axes: person speaking and content of speech. Subsequently, we analyzed the universe of comments on a given theme and compared the arguments and discursive strategies employed by different actors.

Second, we consulted material from the restricted-access archives of James Baker (U.S. Treasury Secretary, 1985–88). These documents included IMF-related correspondence, speeches, briefing papers, talking points, and handwritten notes from meetings and summits. This material was collected from Princeton University's Mudd Manuscript Library, after consulting all files related to Baker's international-economic-policy-related activities during his Treasury tenure: subseries 7C (correspondence), 7E (memoranda and notes), and 7G (subject files).

Third, we gathered policy statements from various international summits, including the Group of 5 (five largest economies at the time) and Group of 24 (developing countries). Fourth, and finally, we rely on secondary literature and expert interviews to complement our account. In total, we conducted 10 interviews with IMF staff, board members, and individuals who served as member-state officials at the time of the shift (see appendix for list of interviewees).

FROM STABILIZATION TO STRUCTURAL ADJUSTMENT

Established at the Bretton Woods monetary conference in 1944, a defining purpose of the IMF was to aid member-governments in responding to balance-of-payments deficits. These occur when a country's import of goods, services, or capital surpasses its exports and can lead to pressures to devalue its currency. In such cases, the IMF was charged with providing financial support and—if appropriate—supervising exchange rate changes. In the words of its Articles of Agreement, the fund would provide member states "with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity" (IMF 2011, p. 2).

Soon after its establishment, the IMF started to require that borrowing countries implement policy reforms in exchange for balance-of-payments loans—a practice known as conditionality. Postwar IMF conditions, or "stabilization measures," required governments to crack down on public spending and regulate the money supply to control inflation and restore currency stability (Babb 2007). This set of policies was termed *macroeconomic conditionality* (as it targeted aggregate economic indicators) and sought to achieve balance-of-payments stability, as mandated by the founding treaty. The specifics of this approach were agreed after Executive Board debates over the 1968 "Guidelines on Conditionality"—the first time such operational guidance was developed (de Vries 1986). At that time, a key fault line concerned whether conditionality should be precise or imprecise; potential borrowers favored an approach that was tailored to country specificities and therefore not overly rigid, while creditor nations generally promoted quantified conditions that would serve as alarm bells indicating policy slippage (Best 2012, p. 681). Ultimately, the use of quantified stabilization measures was permitted by the guidelines, with only limited scope for digression.

Importantly, stabilization measures left the underlying economic architecture of borrowing countries intact. For example, borrowers remained free to pursue their preferred trade policies or to maintain large state-owned industrial sectors. It was thus seen as consistent with the fund's "neutrality doctrine," which held the IMF should not adopt a position regarding its borrowers' domestic economic and social priorities (Finch 1983). Indeed, in the 1968 debates IMF staff explicitly wanted to avoid expanding the scope of conditionality to cover other policy areas, because—as a staff report explained—"the impression may be created that the Fund is making a judgment on the priorities of the member" (cited in Best 2012, p. 681).

As schematized in figure 1, in the 1980s the IMF transitioned to advocating *structural adjustment conditionality*, aimed at spurring market-led

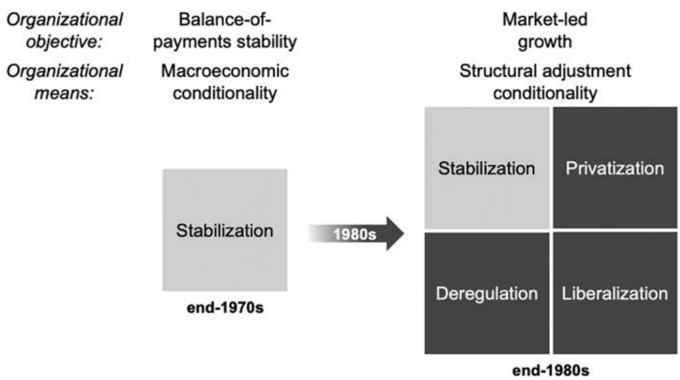

FIG. 1.—The transformation of means and ends of IMF lending in the 1980s (authors' image, drawing on Summers and Pritchett [1993] and Toye [1994]).

economic growth. This encompassed not only the macroeconomic policy conditions of the stabilization era but also microeconomic, "structural" policy conditions, including privatization, deregulation, and trade liberalization. This set of policies was immortalized in 1990 as the Washington Consensus (Williamson 1990).

In our account below, we document how this momentous institutional repurposing occurred. Our analysis reveals three key groups of actors: the U.S. Treasury and its developed-country allies, developing countries, and IMF management and senior staff. In the late 1970s and early 1980s, IMF management was interested in expanding the organization's mandate to include market-liberalizing reforms but failed due to lack of resources, allies, and favorable opportunity structures. In contrast, in the mid-1980s the second Reagan administration took advantage of a favorable environment to successfully engineer a major shift in the IMF's operational norms—one that put the IMF into the business of reforming the architecture of national economies.

Initial Efforts at Institutional Repurposing by Management and Staff

The 1970s brought tremendous turmoil to the global economy, including widespread inflation, currency instability, and two oil crises. When the Bretton Woods system of fixed exchange rates collapsed in 1971 due to the United States' suspension of convertibility for the dollar, the IMF's ostensible raison d'être ceased to exist. After years of negotiations, the IMF's founding treaty was amended in 1978, and the organization was charged with exercising "firm surveillance" over the exchange-rate policies of its members (de Vries 1986, p. 122), an updated mandate that opened up a new array of national policies to the gaze of IMF staff conducting their regular surveillance missions to countries (James 1996, p. 272). In turn, this offered IMF staff an opportunity to closely observe countries' domestic affairs and to apply their own cultural templates to analyze policies and prescribe reforms (Broome and Seabrooke 2007).

Despite the IMF's new surveillance tool kit, its lending mandate was left unchanged: the organization remained at its core a monetary institution, with its neutrality doctrine intact. Nonetheless, IMF staff sought to expand their role in reshaping the domestic policy environments of developing countries. By the late 1970s, management was exploring how the remit of conditionality could include addressing underlying "structural issues" in developing countries' economies (Jacques de Larosière, interview with authors; 9/14/2015). Rather than merely promoting macroeconomic stability through its standard medicine of fiscal belt-tightening, monetary contraction, and devaluation, the organization would use conditions on its loans to promote more significant, long-lasting reforms. In line with the dominant shift away from postwar statism toward free-market theories (see Hirschman 1981), the proposed new role for conditionality was to liberate market forces.

Such a significant transformation in the fund's role could not occur without the support of the country representatives sitting on the organization's Executive Board. Management and staff first raised the issue during the 1979 board deliberations over the IMF Guidelines on Conditionality. However, the proposal was soundly rejected: expanding conditionality beyond its traditional macroeconomic scope was viewed by member governments as illegitimate. Developing-country representatives criticized staff proposals for not attending to the particular circumstances of borrowing countries (IMF 1979*a*). Instead, they favored updating the guidelines to allow the fund to take into consideration the devastating impact of stabilization programs on economic growth. The Indonesian representative took the lead in arguing that "[IMF] staff should show more sensitivity than it had in the past to the plight of those bearing the cost . . . [due to] programs that involved an excessive adverse impact on economic growth and per capita income" (IMF 1979*a*, p. 6)—a sentiment echoed by several other developing-country directors. The IMF, in short, should put not more but fewer conditions on its loans.

High-income countries—including the United States—also opposed expanding the purpose of conditionality but for different reasons. They saw any expansion of the fund's mandate as mission creep. For example, Sam Cross, the American director, reminded the board that the IMF had a mandate to focus "on matters such as budget deficits and exchange rates" (IMF 1979*b*, p. 8), and several other high-income country representatives similarly spoke in favor of keeping business as usual (IMF 1979*a*, 1979*c*). The board affirmed that IMF programs should target macroeconomic variables and could deviate toward other types of reforms "only in exceptional cases," while respecting the "domestic social and political objectives" of borrowers (IMF 1979*d*) as envisaged by the neutrality doctrine. Ultimately, the 1979 guidelines upheld the IMF's mandate on balance-of-payments stabilization, leaving little leeway for expanding the reach of conditionality and including no mention of growth (IMF 1980*a*).

The election of Ronald Reagan as U.S. president in 1980 presented a new opening for IMF management to present its case for expanding conditionality. Wealthy-country governments were clearly the intended audience of a key staff report (IMF 1981*e*), where IMF management proposed that the Executive Board consider "the relevance of supply-side economics for the Fund's analysis and policy work" (IMF 1980*b*, 1980*c*, 1981*b*).[4] Along this

[4] Supply-side economic theories were developed in the 1970s and challenged the then-dominant Keynesian paradigm focusing on the demand side; i.e., that consumption underpins investment. Instead, supply-side economics shifted attention to the role of saving

line of reasoning, the report included a section on "measures to limit the size of the government sector," where staff expressed concern over government involvement in areas marked by "the absence of market mechanisms" (IMF 1981*e*, p. 10).

Developing-country representatives greeted staff views with hostility, and they took issue with the argument that growth was predicated on market-liberalizing reforms. Mexican representative Ariel Buira attacked the IMF staff for advancing "a nice nineteenth century liberal concept in which the state has a purely regulatory role and no development responsibilities, but surely one on which the Fund's 140-odd member countries may have their own views" (IMF 1981*f*, pp. 13–15). Similarly, representatives from China and Libya objected to the one-size-fits-all tone of the report: "The question of public versus private investment in mixed economies depended on a host of socioeconomic factors . . . so that it was neither possible nor desirable to make any heroic generalizations" (Finaish, in IMF 1981*f*, p. 28).

For their part, high-income governments once again rejected the IMF's proposed expansion of conditionality (IMF 1981*c*, 1981*d*, p. 3; 1981*g*). The British representative urged caution to "ensure that the Fund did not move too far into [supply-side] development policies, for which it was not designed or equipped" (IMF 1981*f*, p. 24) and wondered "whether sufficient attention had been paid [by IMF staff] to the *necessary balance of payments adjustment*, which *was after all the purpose of Fund financing*" (IMF 1981*a*, p. 14; emphasis added). The United States was also unenthusiastic, in line with the incoming Treasury leadership's mistrust of international organizations, seen as bloated and ineffective bureaucracies (Nau 1984, p. 25; Harvey 2007, p. 29).

In short, with the collapse of the Bretton Woods monetary system, IMF management and staff saw the need and opportunity to reorient the fund's mission. Like cases of other organizations facing existential challenges (see Messinger 1955; Zald and Denton 1963), the IMF bureaucracy sought new goals to replace those that had become defunct.[5] Their proposal to use conditionality to promote free-market reforms resonated well with the theories that had come to dominate economics departments of elite universities, where new recruits to the IMF were commonly trained (Nelson 2014). However, the degree of change proposed by the IMF staff could not materialize without support from member states. In other words, while organizational staff sought to adapt to the changes in the IMF's external organizational en-

and the design of incentives for it. The policy implications of this shift were the advocacy of business-friendly policies such as lower tax rates and reduced public spending (see Blyth 2013; Hung and Thompson 2016).

[5] These preferences contrast the more conservative approaches advanced by the previous generation of senior IMF staff who—during the 1968 debates—favored a limited scope of conditionality, in keeping with the mandate (Best 2012).

vironment, they were barred from doing so by their political masters who were critical—for different reasons—of any changes to the mandate.

In 1982, the world's attention shifted to a more pressing issue: the Third World debt crisis. This provided a new burst of life for the IMF, which achieved a 48% increase in its capital and approved some of the largest loans in its history (Boughton 2001, pp. 359–414). Yet, the idea of using IMF conditionality to promote market-liberalizing reforms did not disappear. As we examine below, in the mid-1980s, it was taken up by the U.S. government, a skilled social actor that was ultimately able to repurpose existing institutions to achieve new objectives.

The Baker Plan and the Rise of Structural Adjustment

Starting in the mid-1980s, two changes facilitated the onset of major institutional transformation. First, there was an improved opportunity structure. The United States became the undisputed leader in the effort to manage the international economic disorder sparked by the debt crisis and successfully aided debtors, mostly in Latin America, to avoid defaults. Developing countries—once advocating an ambitious New International Economic Order (Bair 2009; Chorev 2012)—were weakened by the crisis: they had excessive debt burdens, economic contraction, declining export values, and no external funds to kick-start their economies (Sachs 1989; Bulmer-Thomas 2003).

Second, and even more important, a new actor willing and able to use resources and social skills to achieve institutional change emerged. The second Reagan administration's Treasury Department—Secretary James Baker and his assistant and deputy assistant secretaries, David Mulford and Charles Dallara—had a different approach than their predecessors. The first Reagan Treasury maintained a skeptical attitude toward international financial institutions, which many Republicans in Congress viewed as bloated bureaucracies, best downsized or eliminated (Babb 2009). In contrast, Baker, Mulford, and Dallara saw in the IMF and other financial institutions an opportunity to advance important U.S. objectives, such as keeping Third World governments from defaulting on their obligations to U.S. banks and persuading or compelling them to open their economies to trade, investment, and private enterprise.

Facing this set of considerations, Baker began to develop a new approach toward the debt crisis that involved an ambitious conception of the IMF's legitimate mission. Announced at the 1985 IMF / World Bank Annual Meetings in Seoul, his Program for Sustained Growth—better known as the Baker Plan—was based on three pillars. The first was "the adoption by principal debtor countries of comprehensive macroeconomic and structural policies, supported by the international financial institutions, to promote growth and balance of payments adjustment, and to reduce inflation." Second, it envisaged "a central role for the IMF" to oversee "the adoption . . . of market-oriented policies for growth" in collaboration with the World Bank and other development banks. Finally, there would be "increased lending by the private banks in support of comprehensive economic adjustment programs" (J. Baker 1985*b*, p. 207).

In advancing these proposals, Baker's objective was to ensure that developing countries would "make their economies more flexible, market-oriented." In return, the United States would support debt restructuring for countries implementing structural adjustment programs (J. Baker 1985*a*). Writing to Patrick Buchanan, then senior advisor to Ronald Reagan, Baker clarified the underlying goals: "Under our proposals, debtor nations such as Mexico, Argentina, Brazil and Venezuela will receive new IMF or World Bank loans only if they adopt and begin implementation of 'supply-side' policies to reattract flight capital and foreign investment, reduce the relative share of public investment, and provide market incentives for long-term growth. . . . We do envision a central role for the IMF . . . in encouraging and monitoring growth-oriented programs in debtor countries" (J. Baker 1985*c*).

In other words, the United States favored a plan requiring IMF borrowers not only to engage in fiscal and monetary belt-tightening but also to adopt strict and extensive market-liberalizing reforms. These proposals were similar to the policy direction advocated by IMF management in earlier years. However, they were far removed from the preferences of the developing countries envisaged to implement structural adjustment. Instead, the latter argued for "a 'positive' type of adjustment" that would limit debt service, lower interest rates, and restructure debt obligations (G-24 1985*a*, 1985*b*; IMF 1985*a*) and called on the fund to both emphasize growth and uphold its neutrality doctrine; Latin American countries declared that "conditionality must take account of the need for growth in production and employment and respect each country's own ability to formulate and execute its adjustment plans" (IMF 1985*a*).[6]

Nevertheless, the historical record shows that Baker's vision prevailed. Figure 2 presents the share of IMF programs with at least one condition relating to state-owned enterprise privatization and labor issues over 1980–90, two key policy areas targeted by the structural adjustment agenda. In the case of privatization conditionality, the transformation was rapid and spectacular: while lending programs never included such conditions until

[6] Bockman (2019) recently documented the intellectual history of structural adjustment, a term originating in pre-1970s calls by socialist economists for more equitable national and international economic orders that only acquired its neoliberal connotation in the 1980s.

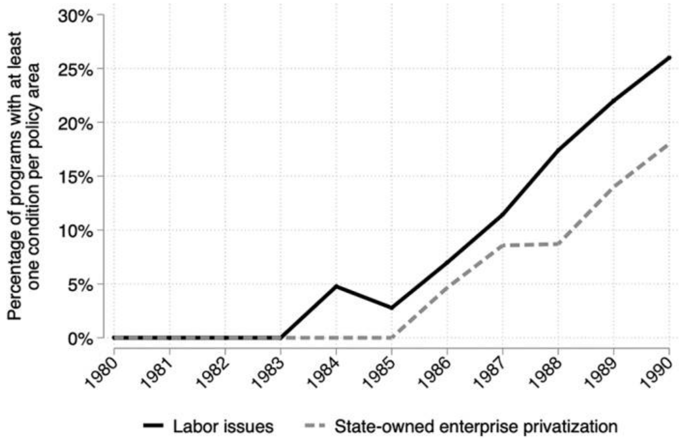

FIG. 2.—IMF conditions on labor issues and privatization, 1980–90 (authors' image, using data from Kentikelenis, Stubbs, and King [2016]).

1985, from 1986 onward their use rose steadily. By 1990, 18% of IMF programs incorporated one or more such reforms. Similar patterns appear in labor-related conditionality (e.g., reforms to reduce the size or cost of the civil service or liberalize labor laws). Such conditions were introduced in less than 5% of loans in 1984 and 1985, but by 1990 over a quarter of IMF programs incorporated at least one such condition.

These new policy conditions directly contradicted the IMF's 1979 Guidelines on Conditionality (discussed above), stating that non-macroeconomic conditions could be introduced "only in exceptional cases," and that they should give due consideration to "domestic social and political objectives" of borrowers (IMF 1979*d*). Instead, the new types of conditions directly affected market-state relations and were in apparent contradiction to the neutrality doctrine guiding the IMF's modus operandi for decades. How was this transformation brought about in such a short period of time?

One way to engineer this institutional change would have been to modify the formal foundations of the IMF's operations: amending the Articles of Agreement. But there were considerable obstacles to such formal-institutional change, as charters of international organizations are based on arduously negotiated treaties and changing them is a lengthy process with an uncertain outcome. Indeed, amending the IMF's articles needed a majority of "three-fifths of the members, having eighty-five percent of the total voting power" (IMF 2011, p. 58). Because they require agreement by many governments, amendments to the articles are rare and contentious. As Emily Landis Walker—advisor to the U.S. executive director between 1985 and 1988—

explained, “no one in their right mind would want to start a process of amending the Articles, because then this has to get approved by the countries. . . . If there is ever a way to accomplish the goal without having a formal vote for an amendment, it’s a safer bet” (interview with authors; 4/28/2015).

Alternatively, the United States could have pursued changing the 1979 Guidelines on Conditionality. This would have been more practicable, as the amendment would occur via the Executive Board alone (rather than requiring ratification by member states) where the United States and its allies held most of the votes. However, even altering the guidelines would have had little prospect of success in the short run: while IMF voting shares privilege high-income countries, the organization’s decision making procedures allow dissenting minorities (in this case, developing countries) to filibuster (Portugal 2005, p. 75). For controversial but time-sensitive decisions, like a policy response to an international debt crisis, this tool of obstruction could have been powerfully and instrumentally employed.

Instead, the IMF was transformed through a shift in operational norms. The following sections outline three dimensions of this successful strategy: mobilization of key allies and resources; normalization of new practices; and symbolic work to stabilize the IMF’s newly expanded mandate. These actions served to promote and legitimate the new norms around the IMF’s lending practices, despite lack of de jure change.

Mobilizing Allies and Resources

As seen above, only four years before the Baker Plan announcement, IMF management’s proposals to expand conditionality to include supply-side reforms had met overwhelming resistance from developing countries and lack of support from the United States and other high-income countries. While IMF management did command epistemic authority as highly trained economists (Fourcade 2009), they lacked the resources, allies, and legitimacy to pursue their preferred agenda.

Now, a similar proposal to expand the remit of IMF conditionality was being championed by the organization’s most powerful shareholder. The Baker agenda was taken up with enthusiasm by IMF leadership, particularly by Managing Director de Larosière and his close collaborators (Mary K. Bush, interview with authors; 4/14/2015). As Charles Dallara, American representative to the IMF at the time, recalled, the United States “tapped into a very sympathetic vein with de Larosière” (interview with authors; 4/16/2015). The latter was not alone: as Maxwell Watson, trusted advisor of de Larosière, noted, Baker’s team “collaborated with people in the Fund who wanted the IMF to expand” (interview with authors; 1/28/2013). This should come as no surprise: IMF management had a clear interest in expanding its mandate to cover what its staff understood as sound policy from the early 1980s. These views now coincided with the interests of the U.S. administration.

However, institutionalizing the Baker Plan needed more than the support of the United States and IMF management. It required building an alliance among the high-income countries that made up the IMF's major shareholders. The Baker Plan also depended on financing from private banks—a resource that neither the United States nor the IMF controlled directly. To lay the foundations for its intended norm substitution to underpin changes in conditionality, the Baker team drew on a wide array of resources to promote this agenda and used its power outside the IMF to push for change within the organization. It was only after building an international coalition in favor of the Baker Plan that the specific issue of market-liberalizing, structural conditionality was brought to the board.

First, U.S. leadership in other international forums enabled it to leverage support from high-income countries. G-5 meetings—bringing together finance ministers of the United States, Britain, Germany, France, and Japan—were a key venue for persuading the IMF's other major shareholders (e.g., J. Baker 1985*a*). In parallel with the U.S. attempt to institutionalize the Baker Plan, high-income countries were negotiating the depreciation of the dollar, an issue of comparatively greater importance to other G-5 ministers. Given these more significant negotiations, other high-income countries were unwilling "to take the U.S. on, on important IMF matters," noted Dallara (interview with authors; 4/16/2015). For instance, while the French were "a bit reluctant to embrace the U.S. aggressiveness on structural reform because they were more sympathetic to developing country concerns," they remained "broadly supportive" of U.S. efforts (Dallara, interview with authors; 4/16/2015). Similarly, in a G-5 meeting, Baker enlisted the support of U.K. finance minister Nigel Lawson (J. Baker 1985*a*).

Second, Baker sought the support of international banks, whose cooperation was critical, since his plan promised developing countries new private financing to repay old debts. In an off-the-record meeting, Baker explained to senior U.S. bankers that—under his plan—there was "no intention of weakening conditionality but [we] want to broaden scope to get at structural reforms. . . . Specific measures would be incorporated in . . . IMF [programs]" (J. Baker 1985*d*). Baker assured bankers that there would be "no arm twisting . . . [your participation has] got to be in [your] self-int[erest]" (handwritten comments in J. Baker 1985*d*). As Tim Lankester, British executive director in 1985, recalled, "Bankers were pleased with the [Baker Plan] shift because they saw it as a way out": bank lending was envisaged to follow, not precede, market-oriented reforms, therefore supporting the Baker Plan cost banks nothing; it was seen as an easy way to resolve the debt crisis without putting repayments at risk (interview with authors; 1/28/2013).

Baker was not alone in seeking to bring the private sector on board; immediately after the Baker Plan announcement in Seoul, de Larosière toured the world promoting it to banks and big business. Echoing the tone set by U.S. Treasury officials, he clarified to bankers that "the essence of the [Baker Plan] lay in strong macroeconomic and structural policies . . . [that include actions to] liberalize and deregulate economies" (IMF 1986*k*) and that it would "facilitate the privatization of public enterprises, etc." (IMF 1985*f*, 1985*g*). The IMF would be the guarantor of this process, and as soon as de Larosière returned to Washington, he wrote "on a personal basis" to Baker "reflecting the conversations [he] just had with bankers" and requested a meeting with Baker's deputy to discuss how to carry forward the U.S. initiative (IMF 1985*b*).

From the banks' perspective, the market-liberalizing reforms were an added bonus. Privatization was particularly attractive for banks (Rhodes 2011), as it would enable purchasing assets in debtor countries for low prices. For instance, writing to senior IMF and World Bank officials, Pierre Haas, president of Banque Paribas International, encouraged the creation of bank-financed privatization funds to "be used to buy shares in state-owned companies being privatized and offered in the local stock market, i.e. Petrobras in Brazil. . . . This proposition would have [the advantage of creating] a direct link between the Baker plan and the extension of the private sector in developing countries" (IMF 1985*d*). Banks issued press releases in support of Baker's proposals and suggested that henceforth IMF programs should "include input from the commercial banks" on the design of conditionality (IMF 1985*i*; also IMF 1985*e*, 1985*g*, 1985*k*).

In this way, two ingredients of the U.S. recipe for institutional transformation were secured: agreement among developed countries, and the backing of international banks. The refusal of either to endorse the U.S. efforts would have been a setback; high-income countries' support was necessary on the Executive Board, and the pledge of international banks to scale up lending presented a powerful incentive for cash-strapped debtor countries.

Meanwhile, within the IMF, senior staff supported the U.S. Treasury in its attempts to promote an expansionary approach toward the fund's mandate. For instance, building on the U.S. proposals, Vito Tanzi, director of the influential Fiscal Affairs Department, openly advocated the expansion of the IMF's policy remit. In a training seminar, he reminded staff that "the Baker initiative calls for renewed attention to specific structural policies" and explained how this could be introduced in IMF programs, while accepting that it "would require a change in the guidelines on conditionality which doubtless would entail political difficulties" (IMF 1986*m*).[7]

[7] In that seminar, Tanzi delved into the specifics of how to revise the design of conditionality in a way "clearly consistent with the Baker initiative": "In addition to identifying the

This expansionary tone was consistently transmitted from top management to the rest of the bureaucracy. As de Larosière told staff, "Given that structural policies are desirable, [what remains is the] 'how-to-do-it-problem.' . . . How ambitious should we be in seeking to overhaul the institutional elements of a country's economy? How micro should we be?" (IMF 1986*f*). For IMF management, the answer to these questions entailed an augmentation of conditionality in a way compatible with Baker's proposals (IMF 1985*m*). Indeed, de Larosière mentioned to his deputies that "given the emphasis given at Seoul to supply-side policies, it is important that [we address] the issue in a full way" when reporting to the board and instructed them to draw on a relevant report prepared by U.S. director Dallara (handwritten comments in IMF 1985*c*).

In sum, the United States engineered a powerful coalition to support the emerging institutional transformation. However, the proposed approach did not have universal support. Some developing countries—that is, those anticipated to implement "growth-oriented" structural reforms—opposed allowing IMF conditionality to include free-market reforms. For instance, Brazilian representative Alexandre Kafka was "concerned about the recommendation for greater Fund involvement in members' planning and policy formulation, particularly on structural issues," noting that "the Fund staff was not as well trained to deal with structural or microeconomic problems as with macroeconomic issues" (IMF 1986*b*, p. 22). Even some IMF staff expressed opposition to expanding IMF activities in line with the Baker Plan (described below). Yet, neither developing countries nor dissenting IMF staff were in a position to block the Baker agenda: the former because of their weak influence on the board, which was further diminished by the debt crisis; and the latter because the IMF's rigid hierarchical structure afforded them little leeway to oppose the diktats of management (Boughton 2001; Halliday and Carruthers 2009, p. 21). Their concerns could safely be ignored.

Normalizing New Practices

Changing the fund's formal policy was not a feasible way to introduce structural adjustment; such changes were always arduous and time con-

range of adjustment needed at the macro level, a Fund mission [to a borrowing country] would make an inventory of the various changes in both the level and structure of taxes and of public expenditure that would be required to promote the country's growth objective" (IMF 1986*m*). These suggestions reflect the major transformation that the Baker Plan enabled: while the IMF had exhibited a "historic reticence on spending and taxing decisions" (Polak 1991, p. 24), this expansionary approach would enable direct involvement in these areas as the IMF would "look for . . . ways to add to revenues, or to reduce expenditures," starting with "some initial experimentation in well-chosen countries" (IMF 1986*m*).

suming, and—in any case—the United States and its allies lacked the supermajority needed to alter the articles or the guidelines. An alternative was to introduce new lending routines strategically, without seeking to alter the formal policy upon which they were ostensibly based. Revised practices could then be introduced in individual loans, which required only simple board majority for approval and generated far less discussion and controversy than questions of policy. Least discussed of all were loans to less developed countries (Honig and Kentikelenis 2016). It was precisely these countries that became test subjects for the rollout of structural conditionality.

Announced shortly after the Baker Plan in 1985, the Structural Adjustment Facility (SAF) offered subsidized loans to the lowest-income countries and thus excluded many of the large debtors (like Mexico, Brazil, or Argentina). In 1985, Charles Dallara prepared a blueprint for the specifics of this lending facility and transmitted his proposals directly to the heads of IMF departments, before presenting them to the Executive Board (see IMF 1986*i*). Under the U.S. blueprint, low-income borrowers would have to work with both the World Bank and the IMF to develop "a comprehensive policy framework . . . which would be broad enough to encompass recommendations in such areas as the current account position; fiscal policy; relative prices; money and credit expansion; exchange rate reform; liberalization of trade, foreign direct investment, and exchange restrictions; privatization of parastatal organizations; deregulation of domestic markets; sectoral policies; investment programs; tax policies; expenditure controls; financial market reforms; labor market reforms; and other areas, as appropriate" (IMF 1986*c*).

As this list makes clear, little was left outside the remit of this new, all-encompassing approach to the design of IMF programs for low-income countries, and this issue was not lost on their representatives to the organization. Reflecting the majority view of developing countries, Tanzanian executive director Edwin Mtei complained that staff proposals reflected "a major departure from the letter and spirit of the [IMF's policies for low-income country support], particularly . . . the requirement that it should be subject to low conditionality" (IMF 1986*i*, p. 12). However, reacting to such criticisms, Dallara warned that by not supporting the U.S. approach, developing countries risked "sending a message [to U.S. authorities] which could have a negative effect on . . . financial assistance if it raised doubts about the willingness . . . to implement sound policies" (IMF 1986*i*, p. 20). In other words, if low-income countries wanted access to U.S. foreign aid, implementing Baker Plan–inspired and IMF-administered structural adjustment programs was necessary. To ease some developing-country concerns, Managing Director de Larosière clarified that the IMF had "no intention of overloading" conditionality (IMF 1986*l*, p. 40).

Despite their clearly articulated objections, developing-country representatives could not block the inclusion of structural reforms in IMF programs:

their governments were in dire need of these loans to stave off defaults and were thus obliged to accept the conditions that the IMF attached to its financial support. Consequently, between 1986 and 1987, 22 loans to low-income countries containing structural conditionality were made. These were approved by the IMF's board, but this is not to say that IMF staff's reliance on such policy conditions remained uncontested by developing countries.

The experience of Dominica with the SAF provides a case in point. The country had turned to the IMF for two loans over the first half of the 1980s, and these contained traditional stabilization measures: limits to the fiscal deficit and external debt. However, when Dominica requested a new SAF loan in 1986, it faced a set of novel demands, including new wage legislation for public sector employees, reduction of the size of the civil service, reorganization of its Central Water Authority, and the privatization of its electricity company (IMF 1986*d*).

Such a substantial expansion of conditionality in the context of the SAF was greeted with dismay by developing-country officials. Intervening early in the board debate, Jerry Hospedales, representative from Trinidad and Tobago speaking for Brazil, Colombia, and other Latin American nations, explained that his authorities were "concerned . . . with the proliferation of what appear to be benchmarks and prior actions [i.e., types of structural conditions]. . . . This is not consistent with the remarks of the Managing Director when . . . he clearly stated that there 'should be no overloading of conditionality with prior measures'" (IMF 1986*e*, p. 7). These remarks were echoed—almost verbatim—by the Indian representative, who further questioned whether these practices matched the SAF's promise (IMF 1986*e*, p. 23).

These developing-country criticisms on the design of Dominica's conditionality were brushed aside by high-income country representatives. Directly addressing Hospedales's concerns, British representative Michael Foot noted that he was "not perturbed about the amount of detail seen in the structural adjustment arrangement. . . . In actual fact, the detail in the arrangement is probably beneficial for all concerned" (IMF 1986*e*, p. 9). Indeed, Dallara urged IMF staff to expand conditionality for Dominica even further (IMF 1986*e*, p. 17). Such statements sought to normalize emergent practices that were incompatible with the earlier assurances that SAF programs would not entail excessive degrees of conditionality.

After structural conditions were tested in low-income countries—those with the least bargaining power and weakest voices—they were gradually and increasingly introduced in loans to middle-income countries. The case of conditions to privatize state-owned enterprises, one of the most famous and controversial structural reforms, is revealing. In 1986, privatization was first introduced in about 9% of IMF programs to low-income countries.

By 1987, however, privatization was included as a condition in loans to both low- and middle-income countries at similar rates; and by 1990, that rate had risen to 21% for both groups (authors' calculations, using data from Kentikelenis et al. [2016]).

By the late 1980s, structural conditionality was widely practiced as a standard component of the fund's operational routines, even though its mandate and guidelines prohibited such reengineering of countries' political economies. Structural conditionality had become normalized; what once seemed deviant became taken for granted. This finding points to the normalization of formerly deviant lending practices not being an unintended pathology, as proposed by this strand of theorizing (Vaughan 1996, 1999; Banja 2010; Pinto 2014), but rather a key element in a deliberate strategy of institutional change. Normalization was further shored up by an intensive campaign of symbolic work, to which we now turn.

Symbolic Work for Norm Stabilization

The IMF's move into structural adjustment exceeded the mandate laid out in the 1944 Articles of Agreement, which charged the organization with promoting balance-of-payments stability and *not* with transforming the architecture of national economies. This transformation opened the IMF to the charge of illegitimately exceeding its mandate. For example, Mexican representative Guillermo Ortiz argued in 1987 that "the Fund is—and should remain—a monetary institution. . . . It is clearly outside the scope of Fund activity to insist on reforms outside its sphere of competence" (IMF 1987*c*, p. 8). Even some IMF staff members doubted whether their employer could legitimately embark on this path. For example, the deputy director of the European Department complained that the new direction reflected "a dogmatic preference for . . . [private] ownership of enterprises. . . . This is in contradiction to the Fund's professed neutrality" (IMF 1985*h*, p. 1; also IMF 1985*j*, 1985*l*). Echoing such concerns, several staff members held the view that "if [borrowing-country] authorities were only willing to undertake a minimal stabilization program without significant structural reform, it was not the Fund's role to insist upon an 'optimal' program" (IMF 1986*g*). These new practices also contradicted the guidelines: the inclusion of microeconomic, structural conditions was no longer "exceptional," and "the Fund would be open to criticism that it was not complying with the guidelines," as the Dutch executive director pointed out (IMF 1986*b*, p. 36; also IMF 1986*a*).

In light of these doubts and contradictions, changes in the fund's operational norms needed to be bolstered by symbolic work. Developing-country governments were vociferous opponents of structural conditionality, and—while they were in no position to block it altogether—they could use their voice to repeatedly expose how it contradicted the fund's formal policy.

When such objections were raised, it was important to have a plausible account to "make sense" of the apparent deviation from formal rules. This narrative was not intended to convince skeptical developing-country directors, who had clearly articulated disagreement with the emerging modus operandi. Instead, it served to forestall their objections and to ease cognitive dissonance among the proposal's allies. To this end, the United States—with the collaboration of IMF management—crafted a narrative that rested on two pillars to overcome the legitimation deficit for the IMF's new role. First, they argued that the promotion of growth was a purpose of the fund, best pursued through market-liberalizing reforms. In this way, new practices were linked rhetorically to a universally accepted cultural value: economic growth (Suddaby and Greenwood 2005; Hironaka 2014). Second, they contended that the fund's Guidelines on Conditionality were malleable and that including structural reforms as conditions was, therefore, not in conflict with these guidelines.

The Narrative of Growth

According to the IMF's founding treaty, economic growth was not a goal but an expected outcome of the organization's activities (Polak 1991). Indeed, in earlier discussions, general counsel Joseph Gold had explained to the board that "growth was not a purpose of the Fund in Article I, and proposals to make it a purpose had been the subject of sustained debate and had been rejected" (IMF 1979*a*, p. 14). Nevertheless, by the mid-1980s both high-income and developing countries favored a "growth orientation," at least in principle, albeit for very different reasons. For high-income countries, the return of growth would help end the debt crisis that threatened their overexposed banks. And—as noted above—developing countries had been arguing that growth should have been among the IMF's objectives from the 1970s. Where they disagreed was on how such growth was to materialize.

The U.S. Treasury and IMF management mobilized a powerful narrative that posited growth as best achieved through the implementation of market-liberalizing structural reforms; that is, the types of structural conditions that were already finding their way into an increasing number of IMF programs. This rhetorical strategy had been purposefully devised at the top of the U.S. Treasury (Dallara, interview with authors; 4/16/2015). As Baker himself explained, it was "very important that the Fund give increasing attention in its programs to structural policy changes," and this would include "giv[ing] higher priority to tax reform, market-oriented pricing, the reduction of labor market rigidities, and to opening economies to foreign trade and investment" (IMF 1986*a*, p. 31). In Executive Board meetings, the U.S. representative consistently echoed this discourse, emphasizing that "growth orientation needs to be built into the overall [lending] program from the outset. . . .

The full integration of growth-oriented structural measures into Fund programs would contribute significantly to their success" (IMF 1986*h*, p. 35).

The rhetorical equivalence of growth and market liberalization was initially met with disapproval by developing-country officials, for whom restoring growth was linked to having fiscal breathing space and greater policy autonomy. For example, Indian representative Arjun Sengupta complained that IMF proposals for the design of growth-oriented programs were "apparently . . . written by a very competent economist, but one who has not had much experience in actually helping to solve problems facing developing countries. . . . I feel somewhat uneasy about the direction in which we are going" (IMF 1987*d*, p. 38).

In contrast, Baker's growth rhetoric was adopted enthusiastically by other high-income country officials. British representative Tim Lankester explained that he "strongly endorsed . . . the U.S. proposals about the elements of structural adjustment to be included in [IMF] programs" (IMF 1986*i*, p. 38), and Japanese representative Hirotake Fujino noted his agreement with the Baker Plan proposals that "programs should include structural and growth-oriented adjustment on a more regular basis" (IMF 1986*b*, p. 9). The French director rejected what he saw as developing-country proposals for "growth-oriented adjustment programs which could be designed practically without conditionality. These programs are clearly not acceptable" (IMF 1987*e*, p. 39).[8]

The Narrative of Malleability

The fund's Guidelines on Conditionality explicitly proscribed the inclusion of structural conditions, barring "exceptional cases" (Guideline 9). To overcome this proscription, advocates of structural conditionality strategically framed formal policies as malleable. In their frequent reports to the board on conditionality, IMF staff started to argue that structural adjustment was compatible with the Guidelines on Conditionality. For example, just two months after the announcement of the Baker Plan, IMF staff told the board that "structural adjustment requires a broad range of measures of a microeconomic character and performance criteria on such measures that are 'essential for the effectiveness of the member's program because of their economic impact' are consistent with Guideline 9" (IMF 1985*f*, p. 37). The phrase "in exceptional cases" (IMF 1979*d*) was conveniently left out by staff in their report.

[8] Statements supporting the U.S. approach were also made by the German, French, Italian, Swedish, Australian, Belgian, and Dutch representatives (IMF 1986*i*, 1986*j*, 1987*d*).

Several developing-country representatives expressed discomfort with the growing discrepancy between the guidelines and IMF practice. For instance, the Sri Lankan director pointed out that "structural reforms are . . . not consistent with the present guidelines on conditionality. In fact, nowhere in the guidelines do the words 'structural' or 'growth' occur" (IMF 1987*b*, p. 14). In contrast, the United States and other high-income country representatives repeatedly asserted that the guidelines were more open and versatile. As U.S. representative Dallara told the board, structural reforms fall "within the context of the current guidelines for conditionality. In reviewing those guidelines, one can only have admiration for the farsightedness of our predecessors who developed them" (IMF 1986*a*, p. 40). The purported "flexibility" of the formal guidelines became a buzzword. The British representative argued that they "had been construed in a *flexible* and sensible spirit" and stressed the need for "further emphasis on structural policies . . . within the framework of the Baker initiative" (IMF 1986*b*, p. 8; emphasis added). Similarly, the French representative urged the board to "keep in mind the necessary *flexibility* built into the guidelines" (IMF 1986*h*, p. 15; emphasis added), and the German representative iterated that "the guidelines on conditionality are sufficiently *flexible* to capture existing policies and practices" (IMF 1988, p. 10; emphasis added).

In sum, these narratives narrowed critics' room to maneuver and provided a rationale for new operational norms, in which structural conditions were a routine element of IMF lending arrangements. That is, the new structural adjustment norms were grafted onto preexisting cultural accounts in the international development field that had an overwhelming focus on growth (see also Hironaka 2014, pp. 115–17). Indeed, by 1987, IMF staff were confident enough to define growth-oriented structural adjustment "in a broad sense to include all measures that affect the structure of economic incentives and the efficiency with which the economy operates" (IMF 1987*a*, p. 2), a definition that left few areas potentially outside the purview of IMF programs.

After the new approach was branded and packaged as the sole credible growth orientation, developing countries found it increasingly difficult to challenge the course taken. In some cases, a new generation of economic policy makers—often trained in the United States and having free-market policy preferences (Babb 2001; Dezalay and Garth 2002)—came to power in debtor countries and became willing collaborators with IMF staff promoting market-liberalizing reforms (Nelson 2014). Overall, in conjunction with high debt burdens and the need for external financing, their negotiating position did not allow them to mount an effective challenge. By the late 1980s, structural conditionality had become a taken-for-granted practice that no longer attracted controversy on the IMF's board (Boughton 2001).

CONCLUDING DISCUSSION: THE CLANDESTINE POLITICS OF INTERNATIONAL INSTITUTIONAL CHANGE

Globalization acquired its current, neoliberal form in the final quarter of the 20th century, when venerable institutions designed to serve a very different regime were repurposed to become part of a new world order. The GATT was renegotiated and subsumed under the WTO. The World Bank increasingly pursued its development mission through encouraging market-liberalizing policies. And the IMF underwent a drastic reinterpretation of its mandate in order to promote "structural adjustment," an intrusive package of policy reforms. This represented a fundamental break from past practices, yet it occurred in the absence of change to the organization's founding treaty and operational guidelines.

We have shown that the fund was repurposed through norm substitution: the shifting of expectations about the activities in which it could legitimately engage. This process was led by the U.S. Treasury, which mobilized resources and allies, normalized deviant organizational practices, and stabilized the new normative apparatus through symbolic work. This major change materialized without regard for the objections of developing countries and in a way that would further the goals of the United States and other high-income countries. As a result of these efforts, the paramount institution underpinning international monetary relations was transformed from one designed to enable governments to pursue full employment targets, to one promoting the privatization of natural resources and state-owned enterprises, the deregulation of economic activity, and the liberalization of trade and finance.

In tracing these processes, our account denaturalizes the rise of neoliberal globalization in the 1980s. Contributing to an expanding set of inquiries into the origins and evolution of neoliberalism (e.g., Mirowski and Plehwe 2009; Chorev 2010; Fairbrother 2010, 2014; Panitch and Gindin 2013; Ban 2016; Kentikelenis and Seabrooke 2017; Slobodian 2018), we document how the foundations of the world economic order had to be deliberately overhauled through the repurposing of existing institutions. The transformation of the IMF resulted from a carefully constructed plan of the U.S. Treasury—in alliance with other high-income country governments and IMF management—for reshaping the political economies of developing countries. Consequently, our account infuses institutionalist explanations with a fuller appreciation of the ways in which politics manifested and demonstrates how power asymmetries can be reflected in global institutional change, even in the absence of overt contestation over formal arrangements.

While this extended study of a single case precludes assessing which element of the U.S. strategy for transformation was most influential, our account suggests complementarities between these elements. The mobilization of allies and resources was an indispensable step as the United States cemented a coalition that was willing and able to implement the Baker Plan's prescriptions. Yet, mobilization was not sufficient: by itself, it could have politicized the attempted transformation and yielded pushback on the Executive Board. In other words, it is unlikely that major institutional change would have effectively and durably occurred, absent the other elements of the U.S. strategy. Normalization served to establish a taken-for-granted quality of the formerly deviant practices, thereby buttressing the transformation. Symbolic work abated or stifled counterarguments, thereby limiting the rhetorical space for dissenting views, an issue to which we return below.

Why might aspiring change agents pursue norm substitution over formal renegotiation? A cursory comparison between our case and the GATT's transformation into the WTO, starting in 1986, highlights the advantages of norm substitution over formal change (see Chorev 2005). The global trade regime entailed highly legalized structures, and high-income countries—the key change agents—had no other choice but to resort to formal negotiations among states. These negotiations took eight long years to conclude, and their public visibility politicized the trading regime, attracting criticism from nongovernmental actors and protestations by developing countries (Slobodian 2018). In turn, this spurred mobilization efforts; a few years later, developing countries successfully resisted further deepening of the trade regime in the image of U.S. preferences (Chorev and Babb 2009).

In contrast, the transformation of the IMF occurred far more rapidly and discreetly. Given the interests of economic and political elites in Western countries and the favorable opportunity structure presented by the Third World debt crisis, informal change was the most practical strategy for the United States and its allies, and it turned out to be remarkably successful: the fundamental shifts envisaged by the Baker Plan started materializing within a year of its announcement. Because this change was clandestine, it preserved the fund's legitimacy as a neutral, technocratic organization, without generating either popular protests in high-income countries or controversies in the international press.[9] Indeed, challenges to what became known as the Washington Consensus only gained momentum toward the end of the 1990s (Stiglitz 2002)—over a decade after they were clandestinely instituted.

[9] These could have been successful in bolstering opposition, as the protests in Washington and Seattle against the World Bank or the WTO in the 1990s demonstrate. Of course, there were many protests against IMF programs in developing countries during this period (Walton and Ragin 1990), but these did not have a discernible impact on decision making at the IMF, as discussed above. In our Lexis-Nexis search for press accounts discussing IMF structural adjustment loans from 1985 through 1990, we were unable to find a single controversy regarding structural conditionality.

Initially, our account seems to imply that states may be the only actors with the resources needed to bring about norm substitution. For example, IMF management tried and failed to expand the organization's mandate; it was only with U.S. patronage that structural adjustment could take root. However, in the absence of counterfactual cases, we are cautious about generalizing. It is unclear whether the United States would have succeeded in the absence of enthusiastic support from IMF management. Further, we cannot rule out the possibility that internal bureaucratic actors might implement norm substitution in other types of international organizations—such as United Nations agencies—that lack the IMF's tight control by wealthy shareholders. After all, as Michels (1915) observed long ago, technocrats can completely reorient member-based organizations. Future research can elaborate on whether and how nonstate actors can bring about fundamental institutional change in the world polity through informal means.

The concept of norm substitution can be fruitfully applied to other cases of major-yet-informal transformations in the world polity. For example, a key pillar of the 1992 Treaty for the European Union is the maintenance of fiscal sovereignty by member-states. To this end, the treaty includes a "no-bailout clause" stating that "the Union shall not be liable for or assume the commitments of central governments" (Article 125.1); this safeguard was included to prevent some E.U. member-states from becoming responsible for debt obligations of other members. Yet, as the European sovereign debt crisis rapidly engulfed European countries in 2009, powerful policy makers—led by Germany—found ways to bypass this prohibition and dissenting voices through coalition building, altered practices, and leaps of legal interpretation (Wyplosz 2009, 2014; Schmidt 2010, p. 201). This case, too, included dynamics of mobilization, normalization, and symbolic work: Germany and its allies successfully mobilized support within the E.U. institutions for country bailouts; this decision was normalized through the establishment of extratreaty bodies to provide such loans; and it was stabilized through references to the malleability of formal rules and the urgency of responding to the crisis (Ban and Seabrooke 2017). Similarly, the North Atlantic Treaty Organization (NATO) survived into the post–Cold War era by normalizing new practices (most notably, becoming involved in Bosnia, even though the collective defense of members was not threatened) and engaging in symbolic work (i.e., recasting the old mission to be flexible enough to deal with new security concerns; see Wallander 2000).

Beyond our contribution to scholarship on global institutional change, our work also speaks to the role of ideas in these processes. Influential social scientific arguments highlight ideas as enabling learning, imitation, or persuasion (Hall 1993; Meyer et al. 1997; Simmons et al. 2008). In our case, in contrast, ideas were deployed strategically to cover the exercise of naked power with an accumulating silt of legitimating discourse. To be sure, this strategy was enabled by a favorable ideational environment: scholarly consensus about the desirability of market liberalization. Yet this environment was not sufficient to effect the IMF's transformation, as management discovered in its first failed attempt to introduce "supply-side" economics. Consequently, rather than viewing ideas as causal determinants, we highlight how symbolic work is used by actors as a tool for institutional change (Suddaby and Greenwood 2005; Halliday et al. 2010).

To argue that symbolic work is an integral part of the norm substitution process is *not* to say that critics of change are deceived into coalescing to something they oppose. Rather, strategic framing limits the opportunities for opponents to block change: their argument space is minimized, their policy ideas branded as inappropriate and incompatible with best practices or scientific advances, they can become outnumbered or divided, and their acquiescence can be bought off (e.g., through promises of increased loans or aid). Absent alternative and forceful frames, advocates of different directions of change or status quo maintenance lack a key cultural resource they can use and rally around to pursue their preferred institutional arrangements.

The rise of neoliberal globalization represents a case of major international institutional change. Our account documents where the responsibility for this transformation lies. The diffusion of neoliberalism around the world through IMF-mandated reforms was not the direct result of ideational shifts or technocratic zeal; it was the outcome of purposive action by the United States and its powerful allies to repurpose a key institution of global governance. Further, our case expands sociological accounts about change in the world polity. We draw attention away from the well-understood and conspicuous politics of formal change—such as the establishment of new organizations or the renegotiation of treaties—and toward clandestine processes. In these cases, there are no grand conventions or leaders' summits, no universal declarations, and no treaty-signing ceremonies. Instead, the old formal-institutional shell remains intact, while practices come to radically diverge from both the letter and the spirit of the original rules.

APPENDIX

Biographical Information on Individuals Interviewed

Our sources for these biographical sketches include the IMF archives (Secretary's Circulars), internet searches, and Boughton (2001).

Bush, Mary K. (U.S.).—Born in 1948, Bush studied finance (MBA) at the University of Chicago. She started her career in the banking sector (Chase Manhattan, Citibank, Bankers Trust) and—in 1982—joined the U.S. Treasury as special assistant to the deputy secretary on international economic policy. She joined the IMF Executive Board in 1983 as alternate executive director, relinquishing her duties in 1987. Subsequently, she was head of the

Federal Home Loan Bank System and a board member of Sallie Mae and established her own company, Bush International, in 1991.

Dallara, Charles H. (U.S.).—Born in 1948, Dallara studied international economics (PhD) at Tufts University. He started his career at the U.S. Treasury's Office of International Monetary Affairs. He joined the IMF Executive Board in 1982, first as alternate executive director and then as executive director, relinquishing his duties in 1989. In parallel, he served as deputy assistant secretary of the Treasury for International Monetary Affairs, 1983–85, and senior deputy assistant secretary of the Treasury for International Economic Policy, 1985–88. Subsequently, he was managing director at J. P. Morgan and managing director of the Institute of International Finance (the global association of the financial industry), among other posts.

de Larosière, Jacques (France).—Born in 1929, de Larosière studied at the Institut d'Études Politiques de Paris and the École Nationale d'Administration. He started his career at the French Treasury, rising to become undersecretary for monetary affairs. From 1978 to 1987, he was IMF managing director. Subsequently, he was governor of the Banque de France (1987–93), president of the European Bank for Reconstruction and Development (1993–98), and advisor to the chairman of BNP Paribas (1998–2008), among other posts.

Grosche, Günther (Germany).—Born in 1939, Grosche studied economics (PhD) at Ruhr University. He started his career at the Ministry of Finance of the Federal Republic of Germany. He joined the IMF Executive Board in 1982, first as alternate executive director and then as executive director, relinquishing his duties in 1990. Subsequently, he worked in senior posts in Germany and the European Union.

Lankester, Sir Tim (U.K.).—Born in 1942, Lankester studied economics (MA) at Yale University. He started his career at the World Bank and then joined the British Treasury (on leave as Margaret Thatcher's private secretary between 1979 and 1981). He joined the IMF Executive Board in 1985 as executive director, relinquishing his duties in 1988. Subsequently, he became permanent secretary at the Overseas Development Administration, among other posts.

Truman, Edwin M. (U.S.).—Born in 1941, Truman studied economics (PhD) at Yale University. Upon graduation, he became director of the International Finance Division of the Federal Reserve System (1977–98). Subsequently, he became assistant secretary for international affairs at the U.S. Treasury and a fellow of the Peterson Institute for International Economics.

Walker, Emily Landis (U.S.).—Born in the 1950s, Walker studied international economics at Johns Hopkins University. She initially worked for the Republican Party. She moved to the IMF in 1981, first as a research assistant at the Exchange and Trade Relations Department, and then as an assistant to the U.S. executive director Charles Dallara (1985–88). Subsequently, she worked for U.S. Treasury Secretary Nicholas Brady (1988–91), as the U.S. alternate director at the European Bank for Reconstruction and Development, and as managing director at Citigroup, among other posts in business or government.

Watson, Maxwell (Ireland).—Born in 1946, Watson studied languages (BA) at Cambridge University and started his career at the Bank of England. He joined the IMF first as personal assistant to Jacques de Larosière (1979–81, on leave from the Bank of England) and then—in 1984—as chief of the International Capital Markets Division. He left the IMF in 2003. Subsequently, he worked for the European Commission, among other posts.

Wicks, Sir Nigel (U.K.).—Born in 1940, Wicks studied history (MA) at Cambridge University. He started his career at British Petroleum and then entered the British Treasury. He joined the IMF Executive Board in 1983 as executive director, relinquishing his duties in 1985. Subsequently, he became principal private secretary to Margaret Thatcher (1985–88) and second permanent secretary for international financial issues at the British Treasury (1989–2000). After retirement, he worked as president of the British Bankers Association and nonexecutive director at Morgan Stanley, among other posts.

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