

Assessing the Utility of, and Measuring Learning from, Canada's IMF Article IV Consultations

BESSMA MOMANI *University of Waterloo*

Introduction and Overview

The International Monetary Fund (IMF) is known for lending funds to developing countries in need of assistance after domestic and/or systemic economic crises. One of the IMF's lesser-known functions, however, is the surveillance of all its members. The Fund's Articles of Agreement state that "the Fund shall oversee the international monetary system in order to ensure its effective operation, and shall oversee the compliance of each member with its obligations" (IMF, 1992: 5). To accomplish this, the IMF conducts multilateral surveillance by compiling members' financial and economic data to produce statistical and analytical reports on the position and short-term future of the world economy. The Fund also conducts bilateral surveillance of all its members by meeting with member-state officials on an annual basis. These Article IV consultations are mandatory exercises, during which members accept the IMF's Articles of Agreement. The Article IV consultation reports offer detailed external assessments conducted by highly regarded Fund econ-

Acknowledgments: This study was funded by a University of Waterloo/SSHRC seed grant and was presented at the 2005 Canadian Political Science Association meeting and the Centre for International Governance and Innovation workshop on Canadian Foreign Policy In Review. Many thanks to Elizabeth Smythe, Bob Wolfe, Stephen Clarkson, Sandra Burt, Patricia Goff, Alan Macnaughton and Eric Helleiner for their comments. I would like to thank the interviewees in the Department of Finance for their cooperation and comments on the final draft, and the research assistantship of Elizabeth Mensah.

Dr. Bessma Momani, University of Waterloo and Fellow at the Centre for International Governance and Innovation, Department of Political Science and History, 200 University Ave. West, Waterloo, ON. N2L3G1; bmomani@uwaterloo.ca

Canadian Journal of Political Science / Revue canadienne de science politique
39:2 (June/juin 2006) 249–269

© 2006 Canadian Political Science Association (l'Association canadienne de science politique)
and/et la Société québécoise de science politique

omists, and address exchange rates as well as fiscal, monetary, financial-sector and structural policies. Ideally, the Fund's bilateral meetings and reports would contribute to the domestic policy debate on formulating economic policies and, in addition to other actors and stakeholders, would influence government policy decisions (see Figure 1).

The meetings and ensuing reports are critical to borrowing and would-be borrowing countries, because the policy recommendations contained in the consultation reports constitute part of the pre-conditions to be implemented before taking a Fund loan. Moreover, for members already in a contractual obligation to the Fund, the annual Article IV consultations contain policy advice, called conditionality, that must be implemented before any further funds can be disbursed. The IMF also conducts these annual consultations with industrialized countries such as Canada to preserve the image of universality. In other words, all members' economic and financial policies are scrutinized and monitored equally to preserve a facade of member equality. There has been interest in moving IMF surveillance away from non-crisis (non-borrower states) to high-risk crisis states (would-be borrower states) (see Bryant, 2004: 75). As these reform proposals are being discussed, there needs to be a better assessment of the perceived utility of annual surveillance exercises. How useful are the Article IV consultation meetings and reports to industrialized countries not likely in need of Fund resources? What are Canadian civil servants' perceptions of the surveillance exercise?

The objective of this paper is to determine whether Canada's Department of Finance officials and staff utilize IMF policy advice resulting from Article IV consultation meetings and reports. In the language of constructivist literature on international organizations (IO), do Canadian Finance Department officials *learn* from the IMF through these annual meetings? Interviews with Finance Department officials and personnel were conducted to determine whether Finance personnel used IMF advice in proposing policies to more senior department officials and to assess the personnel's perceptions of key components of the IMF reports, the bilateral consultation process, IMF staff and the utility of IMF economic advice, as well as to solicit ideas on how to improve bilateral surveillance.

In addition, Finance Department documents and communiqués with the Fund, acquired through the Access to Information Act, were also reviewed. The IMF's annual Article IV consultation reports conducted on Canada were codified to assess what policy recommendations and economic observations the IMF staff made during their consultations with Canadian representatives. The time period under investigation was 1999 to 2005, to ensure that Article IV consultation participants were interviewed. This article is an important addition, generally, to the globalization literature, which looks for connectors between international organizations and domestic civil servants and, more specifically, to the

Abstract. The International Monetary Fund's (IMF) annual Article IV consultation meetings and ensuing reports are external assessments of member states' economies by highly regarded international economists, designed to ensure that member states conform to IMF-prescribed liberal economic standards. For non-borrowing advanced industrialized countries, like Canada, what is the perceived utility of these annual Article IV consultations? Constructivists suggest that the adept staff of international organizations (IO) teach state civil servants and officials how to better formulate sound policies. However, constructivists need to engage in further empirical study to back up their theoretical assumptions about IO teaching and state learning. Based on personal interviews with Department of Finance staff involved in Article IV consultations and on content analysis of IMF reports on Canada, this paper contributes an empirical study on whether the Fund staff "teaches" and Canada's finance department staff "learns" from the annual surveillance exercises. The findings of this paper suggest that although involved Canadian Finance personnel appreciate meeting with the Fund staff as an academic and intellectual exchange, the policy advice they receive in the Article IV consultations rarely, if ever, changes their economic analyses, because the Fund's advice tends to not be practical. Based on suggestions from Department of Finance staff, as well as IMF evaluations of its bilateral surveillance, this paper concludes with recommendations from the finance staff on how to improve on the utility of Article IV consultations.

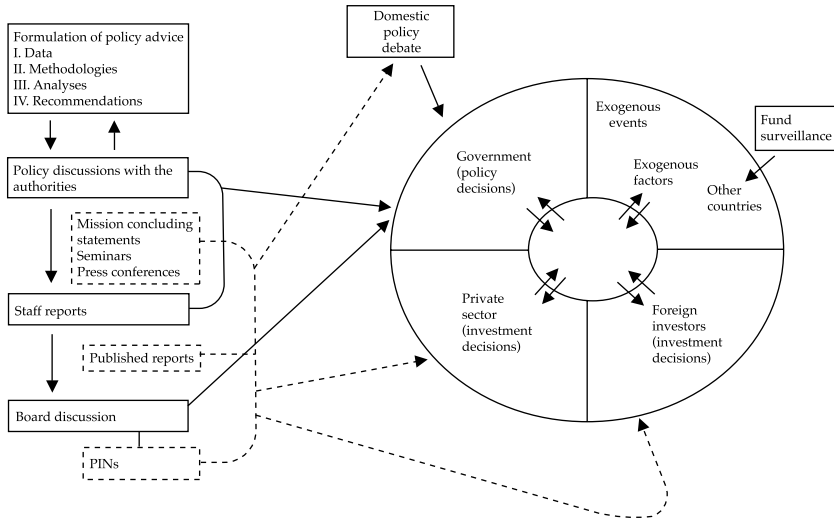
Résumé. Les réunions annuelles de consultation au titre de l'article IV du Fonds monétaire international (FMI) et les rapports suivant sont des évaluations externes pour les économies des états membre, par des économistes internationaux très reconnus, conçu pour assurer que ces états membre conforme aux normes économiques libérales prescrit par le FMI. Pour les pays industrialisés avancés non-empruntant, comme le Canada, quel est l'utilité perçue de ces Consultations annuelles au titre de l'article IV? Les constructivistes suggère que fonctionnaires habile des organisations internationales (OI) enseigne des fonctionnaires de l'état pour qu'ils puissent mieux formuler leur politique. Cependant, les suppositions théoriques des constructivistes a propos de l'enseignement des OI et l'érudition des états ont besoins d'étude empirique plus ample pour expliquer leurs arguments. Basé sur des entretiens personnels avec les personnel du Département de Finance impliqué dans les consultations au titre de l'article IV et sur l'analyse des contenu des rapports de l'FMI sur le Canada, cette article contribue une étude empirique pour déterminé si le personnel des Fonds 'enseigne' et le personnel du département de finance du Canada 'apprend' a travers les exercices de surveillance annuels. Les conclusions de cette article suggèrent que bien que le personnel de Finance Canadien impliqué apprécie la réunion avec les équipe du FMI au tant qu'échange intellectuel et dialogue, les conseils de politique dans les consultations au titre de l'article IV donnet rarement, si jamais, un changement dans leur analyse économique parce que les conseils ont tendance à ne pas être pratique. Ce papier conclut, basé sur les suggestions du personnel au Département Canadien de Finance, et par les évaluations du FMI de sa surveillance bilatérale, avec des recommandations au personnel de finance pour améliorer sur l'utilité des consultations au titre de l'article IV.

constructivist literature, which views international organizations as teachers and states as learners.

International Organizations as Teachers and States as Learners

The Fund is often at the centre of both analysis and debate about the diffusion of a powerful economic ideology (coined the "Washington Consensus") that aims to standardize state behaviour. The prescriptions advocated by these conservative macroeconomic policies include budget

FIGURE 1
The Fund's Bilateral Surveillance Process



restraint, widening the tax base (beyond just corporations and the elite), liberalizing interest and exchange rates, promoting exports and foreign direct investment, deregulating the public sector and safeguarding property rights (see Williamson, 1990: 7–17). Through the conditions the Fund places on its loans, often loosely referred to as structural adjustment policies in development literature, it effectively prescribes the Washington Consensus to borrowing members.

It is argued that countries are highly influenced by the Fund's conservative economic ideology because of purported linkages between Fund and finance ministries' staff. Kahler (1992: 126), for example, argues that a "technocratic alignment" exists between Fund staff and member countries' economic technocrats. According to Kahler, a transnational epistemic community of similarly trained and educated economists in national economic and finance ministries and in international financial institutions (IFIs), especially the Fund, share a common conservative economic solution to what are perceived to be similar economic problems (1992: 126). Cox (1986: 234) argues that members of this "transnational managerial class" determine the policy agenda in favour of promoting unfettered global capitalist relations. Specifically, "these [IFI] specialists may in turn lead the government to 'learn' through defining its interests and strategies in new ways and forging new alliances with international actors" (Kahler, 1992: 127). The defining aim of the lesson plan is to institutionalize and implement policy ideas found under the rubric of the Washington Consensus.

The Fund has been targeted as the torchbearer of this powerful economic ideology, which has permeated the policy-making machinery of most member states, both borrowing and non-borrowing ones. Many continue to be suspicious of the IMF's role in either propagating or forcing the Washington Consensus package of policies onto state policy makers for the purposes of maintaining Western capitalist control (for these neo-Marxist interpretations see Peet, 2003; Payer, 1974; Soederberg, 2002). Specifically, it is argued that the IMF acts as a facilitator between states and powerful financiers comprised of creditor states, banks, bond issuers and other multilateral organizations (Gould, 2003); furthermore, this role tends to serve primarily American banking (see Oatley and Yackee, 2004) and American geopolitical interests (see Thacker, 1999; Momani, 2004). Because the Fund has the support of financial and political powers, its omnipotent image goes unchallenged and therefore fails to be unpacked by many academics.

Broadly speaking, constructivist approaches to international relations have purported that power politics occurring at the structural level is not the only determinant of state behaviour. States are also highly influenced by intangibles like shared ideas, norms and beliefs. A growing body of literature in international organization theory, loosely labelled as social constructivist for its emphasis on an intersubjective understanding of international institutions as social contexts, has attempted to unpack international organizations to assess their impact on international relations. Influenced by sociology and organizational theory, social constructivists are looking within international organizations—examining their organizational culture and behaviour and the socialization of member-state officials—to find that IOs matter and have an impact on states, thereby reshaping international norms and behaviours.

Social constructivists suggest that international organizations are places where intersubjective understandings can be created and then transmitted to states. Over time, IO staff gain the respect and deference of state officials and bureaucrats through repeated interaction (Arend, 1999: 142–147). Specifically, international organizations teach and inform civil servants on how to better perform their work in accordance with internationally held standards of behaviour and accepted beliefs and norms. In this vein, international organizations are viewed as the possible agents of policy change, “teaching” states how to conform their behaviour to international standards (see Finnemore, 1996). International organizations are not passive actors used at the whim of states; rather, they can identify problems, provide solutions and assist states in changing their preferences (Finnemore, 1996). As socializing agents, international organizations prepare states to become norm followers (Finnemore and Sikkink, 1998: 902).

International organizations that have highly respected bureaucrats with noted expertise are accorded greater influence with states (Finnemore

and Sikkink, 1998: 899; Barnett and Finnemore, 2004). Generally, IOs derive this authority from being both in authority, holding positions, roles and seats to exercise power, and from being an authority, having expertise, training, experience and solutions to global problems (Barnett and Finnemore, 2004: 25–26). An IO with both types of authority can thereby create, mold and sanction knowledge; in effect, such an IO can shape social reality (Barnett and Finnemore, 2004: 31). It follows, then, that international organizations in their own missionary zeal want to spread their expertise and have member states follow the best practices laid out for them (Barnett and Finnemore, 2004: 33).

The IMF, in particular, is often viewed as a technocratic institution staffed with top economists recruited from Ivy League academic institutions (see Momani, 2005a). The Fund's self-identified and noted expertise accords the institution great power and autonomy in prescribing and advising sound economic policies (Barnett and Finnemore, 2004: 50). The Fund prides itself on strong economic research that member states acknowledge is grounded in the best economic analysis available (Barnett and Finnemore, 2004; Momani, 2005a). It may be that loan conditionality is deemed by many to be a coercive tool used to change state behaviour, but constructivists add that the IMF's legitimacy and expertise also explains why states listen to the Fund (Barnett and Finnemore, 2004: 68). Fundamentally, the Fund has acquired the authority to teach its members the principles embodied in the Washington Consensus (Barnett and Finnemore, 2004: 68).

Barnett and Finnemore (2004) argue that the noted expertise of IMF staff gives the institution "an authority" that has made it influential and worth listening to in the world of economic policy making. This gives the Fund deference and respect for its policy advice, opening the channels for states to learn from the Fund. Fund staff are authorities on economic theory and policies, such that they have used this authority to produce knowledge to which member states have submitted. The IMF has used its expertise to rewrite the rules of the game that are not necessarily sanctioned by Fund powerful members, but the rules do follow the Fund staff beliefs and paradigms. This type of "dysfunctional IO behaviour" explains why so many IOs, especially the IMF, are accused of mission creep (Barnett and Finnemore, 2004).

One of the noted limitations of the literature on IO teaching and state learning is the lack of empirical testing that documents the micro-processes and social interaction between international organizations and states (Checkel, 1999: 11; Johnston, 2001). Much of the problem, so to speak, is that constructivists' empirical work has been on the macro-historical normative changes (Checkel, 2003: 209), such as embedding liberalism (Ruggie, 1992) and evolving human rights norms (Risse et al., 1999). These studies have not, however, shown the "pathways and mech-

anisms” of IO and state interaction (Checkel, 2003: 209). Checkel explains that constructivists suggest the IOs “... come and ‘teach’ national civil servants; however, this occurs through no documented process of social interaction. Instead, these domestic agents listen, something goes on between the earlobes, and their values subsequently change” (1999: 11). Similarly, Johnston notes that “... the processes by which unit-level actors understand, process, interpret and act upon lessons that are ‘taught’ by international institutions as agents—[?] [are] unexplained” (2001: 492). Assessing the interaction between international organizations’ staff and domestic civil servants would help elucidate learning models.

Another limitation of the literature on IO teaching and state learning is the difficulty of measuring or determining learning. So far, IO constructivist literature presumes that learning takes place if changes are implemented. In other words, international organizations affect civil servants when civil servants actually adopt the changes prescribed by IO staff. Yet how can we really determine whether change is a result of learning from international organizations, or from a natural evolution in the policy-making cycle, or from hegemonic pressure, or from distributional coalitions? Also, how do we know that civil servants are really learning at that specific point in time? It may be valuable to contain learning studies to a short time frame. Short of a psychoanalytical study of civil servants, the best tool at our disposal in determining whether learning really takes place is to ask civil servants important questions about their interaction with IO staff members.

Canada is a useful case study for testing the learning model because it is a non-borrowing member. Again, the difficulty in equating learning with policy change is that the IMF has significant leverage with borrowing states forced to adopt conditionality for financing. To measure learning, we need to look at case studies like Canada and other non-borrowing states, where there is a low probability of Fund coercion. Moreover, Canada is the only OECD country with a financial surplus, which gives Canadian Finance officials added room to maneuver and indeed internalize the Fund’s lesson plans. Simply put, Canada can financially afford to be a receptive learner and change its policies when advised to do so by Fund experts.

Using Canada as a case study is also useful because Canadian officials invest significant effort into emphasizing Canadian cooperation with multilateral agencies and international organizations. Canadian foreign policy includes committing to perceived functionalist institutions, to elevate Canadian stature in international affairs by limiting American realpolitik and by ensuring a rules-based system (Cutler and Zacher, 1992). As a self-proclaimed multilateralist state that supports functionalist organizations, it would follow that Canada would listen to a technocratic IMF that is staffed by apolitical economists. Indeed, in the Department of

Finance's own report to the Canadian Parliament, the Department noted that one of the five listed benefits of Canadian membership in the Fund is that: "[t]he IMF, through its regular surveillance of the Canadian economy, provides Canada with an *independent source of policy advice* on macroeconomic policies and engages in regular dialogue on these policies with Canadian officials at the Department of Finance ..." (Canada, 2005: 7, emphasis added). The Department of Finance favours continued universally applied Fund surveillance through Article IV consultations, arguing the benefits of surveillance for the rules-based global economy.

Finally, the case could be made that Canada's Department of Finance has a strong technocratic alignment with the IMF staff, as similarly trained, graduate-school educated economists from North American universities. In fact, historically the IMF has had many Canadian universities on its list of preferred universities from which to recruit incoming staff and hence has a high proportion of Canadian-trained Fund staff (see Clark, 1996). Presumably the case of Canada and the IMF should stand up well to the constructivists' purported learning model: Canada is in a strong financial position and likely to listen to international organizations, and the IMF is an international organization well respected in non-borrowing members' economic and finance policy circles.

To test the learning model, some of the questions worth asking include: What perceptions do civil servants have of the IO lesson plans? Do civil servants weigh in on the IO lesson plans in setting the agenda for government? Are civil servants learning? What do civil servants think of their teachers? These questions have not been fully addressed in the many studies by constructivists that espouse the role of IOs as teachers and states as learners. What does one of the IMF's "star pupils," Canada, think of the Fund's prescribed policies and its staff? What would Canadian Finance staff like to see improved or changed?

The Fund's Lesson Plan: IMF's 1999–2005 Article IV Consultation Reports on Canada

The IMF's annual Article IV consultations on Canada take place in Ottawa, mainly with Department of Finance officials.¹ However, other government agencies periodically consulted include the Bank of Canada, the Superintendent of Financial Institutions, Health Canada and Human Resources Canada. From 1999 to 2005, IMF staff requests led to intermittent external meetings with (listed in order of frequency): the Canadian Labour Congress, leading Canadian financial institutions, the Toronto Stock Exchange, the Ontario Securities Commission and both the Fraser and C.D. Howe Institutes. A member of the Department of Finance, usually from the Economic and Fiscal Policy branch, accompanied the IMF

staff to these external meetings. Three broad economic areas were typically discussed by the IMF staff and the Department of Finance.²

Monetary Policy and Exchange Rate Discussions

In its 1999 Article IV report, the IMF staff noted its concern over the continued decline and “undervaluation” of the Canadian dollar since 1991. The Fund attributed this pattern to Canada’s declining terms of trade (ratio of Canadian exports to imports compared to the same for the US). That said, in its 2002 Article IV report, Fund staff noted that it was generally pleased with Canada’s flexible exchange rate and noted the limited government intervention into the exchange market. Fund staff added that a monetary union with the United States, an idea advanced by business sectors, would be less preferable to an autonomous system that allowed Canadian authorities greater exchange rate flexibility (IMF, 2002). The following year, the Fund reported that the idea of a monetary union had since “waned” (IMF, 2003: 13).

Fund staff noted in the 1999–2005 consultation reports (with the exception of its 2003 report) that inflation levels were favourably low, and welcomed inflation targeting set at 1 per cent to 3 per cent since 1991. From 1999 to 2002, Fund staff consistently commended Canadian authorities on meeting inflation targets, since they felt that this maintained investor confidence in the Canadian economy. Similarly, Canadian authorities highlighted their successes at maintaining inflation targets (although the consumer price index increased more rapidly) and they pointed out that Canada’s monetary policy would be guided to ensure that inflation targets continued to be met. After September 11 and a surge in prices, Canadian authorities exceeded the 3 per cent target maximum. In light of the extraneous circumstances, Fund staff noted in its 2003 report that they were still pleased with Canada’s handling of the situation. In the 2004 report, staff noted that Canadian officials effectively returned inflation levels to within the target range. Consistently, both Canadian authorities and Fund staff agreed that Canadian monetary policy would, however, hinge on the performance of the US economy.

Fiscal Policy Discussions

The 1999 Article IV report noted that corporate income tax efficiency could be improved by: lowering corporate income taxes to 33 per cent for large businesses (to be more in line with other industrialized countries), coordinating province-to-province and industry-to-industry tax rates, and improving tax collection. In the 2000 Article IV consultation report, Fund staff argued that Canada needed to reform its income tax structure. Canadian authorities and Fund staff agreed that both personal income

tax, particularly for middle-income earners, and corporate income tax needed reform. Fund staff did welcome the 2000 budget's five-year plan to reduce personal and corporate taxes (IMF, 2001). In the 2000 Article IV consultation, Fund staff repeated its suggestion that personal income tax be indexed to avoid "bracket-creep" disincentives, and that corporate taxes be reduced to a level consistent with other industrialized countries. It was further argued that these tax reforms would help reduce the brain drain of professionals to the United States, where personal income tax rates were lower (IMF, 2000). Moreover, Fund staff commented that lowering Canada's personal income tax would help bring "rewards to entrepreneurship and human capital" (IMF, 2002: 30). In its 2005 report, Fund staff noted federal and provincial efforts to lower personal income taxes, but added that there was room to continue lowering personal income taxes.

Almost always, IMF staff reported in its 2000 Article IV consultation that despite Canada's strong fiscal position, it needed to tackle its national debt more aggressively. In general, Fund staff noted that overall spending could be decreased. Canadian authorities agreed but reported the "considerable pressures they faced due to increased spending ... with priority continuing to be given to education and health care" (IMF, 2000: 21). Fund staff repeatedly warned Canada that provincial governments should also attempt to contain spending and to factor in an aging population that will put pressure on health spending. In its 2003 Article IV report, Fund staff further cautioned that new spending priorities, including additional health care reform, social assistance and ratification of the Kyoto protocol, could not be financed under existing budget projections.

In its 2003 and 2004 reports, Fund staff noted that Canadian proposals to add pharmaceutical and long-term care coverage to the health system would be difficult to finance, short of introducing user fees and other cost-sharing policies. However, staff pointed out that Canadian authorities deemed the latter private initiatives "antithetical to the principle of universal access" (IMF, 2003: 21). Canadian authorities explained that, based on recommendations of a Royal Commission, they intended to transfer more funds to the provincial governments to help reform the health care system, but there were disagreements on whether these would be unconditional transfers (as preferred to by the provinces) or tied to some reform measures (IMF, 2003).

The Fund's 1999 report noted that the Canadian social assistance programme creates "poverty traps" that function as disincentives for people to seek work and get off social assistance. But the report acknowledged reform efforts underway in Alberta, Ontario and British Columbia that were reducing dependency on welfare. Fund staff did recommend, however, that measures such as restricting eligibility claims, adding time limits to social assistance, and using education and training programmes

to assist welfare recipients could be used as a means of reducing welfare costs (IMF, 1999).

Structural Reform Discussions

The Fund's 1999 Article IV consultation also suggested that employers' employment insurance (EI) premiums be weighted by performance, whereby companies with higher rates of employee layoffs and firings would contribute a greater share to the insurance programme. The following year, Canadian officials noted that setting companies' EI premium rates based on the proposed "experience-rating" and usage of the EI system was not feasible. In the 2001 report, Fund staff reiterated the value of implementing an 'experience-rating' EI system. In the 2001, 2002 and 2003 reports, Fund staff also raised concerns over the removal of intensity rules on EI benefits (previously in place from 1996 to 2000) that penalized repeat users, stating that removing intensity rules was "... sending the wrong signal" (IMF, 2001: 25). The Fund was also concerned with frequent EI usage by regions with seasonal employment, which, it argued, deterred labour mobility and increased wages in non-seasonal employment (IMF, 2001).

In the 2000 Article IV report, Fund staff again pushed for further reforms of the EI programme. In the 2000, 2001 and 2004 Article IV consultation reports, Fund staff expressed concern at the government's proposed maternity and paternity leave benefits under the EI programme, noting the added costs to the system would "cause substantial dead-weight losses" (IMF, 2004c: 19). Moreover, the Fund was concerned that the EI system was being used to effectively fund social assistance, under the guise of paternal benefits (IMF, 2005: 23). Canadian officials commented that these policies were part of the government's spending priorities on children and families.

Consistently, the Article IV reports by IMF staff commended Canada's commitments to participating in multilateral trading regimes, but stressed the need for trade liberalization in the "sensitive" industries of textiles/clothing and agriculture products. In the 2002 Article IV report, Fund staff added that Canada could also liberalize imports on footwear (IMF, 2002). The 2004 report made note of the fact that government farm supports accounted for 17 per cent of gross farm receipts (IMF, 2004c: 20).

In summary, the Fund's prescribed policies were consistent with the neoliberal Washington Consensus: strict monetary and fiscal policy, flexible exchange rate, maintaining low inflation rates, deficit reduction through restricting government spending (even on social services like health care and employment insurance), reducing personal and corporate income taxes, and trade liberalization. The Fund's Article IV pol-

icy advice consistently echoed a pro-market, neoliberal approach to policy making, one that many globalization critics have blamed for hurting vulnerable social groups and negatively affecting national sovereignty (for a critical historical analysis of Canadian economic policy making see McBride, 2001).

Canada's Department of Finance and the IMF's Article IV Consultation Reports

Canada's Department of Finance plays a prominent role in government decision making, as it holds the power of the purse. It can provide either a green or yellow light to cabinet ministers and other department officials when formulating public policy. The Finance Department has had an increasingly strong influence on the prime minister. Under Prime Minister Jean Chrétien, for example, then Finance Minister Paul Martin attended meetings with the prime minister to formulate a consensus and iron out potential disagreements before convening cabinet meetings (Savoie, 1999: 156). According to Savoie (1999), Finance officials often try to object to new proposals that require funds. This role as "internal government opposition" keeps a check on the government from within (Savoie, 1999: 162). Consequently, in comparison to other government line departments, the Finance Department has an increasingly unique and influential role in government (see Bakvis, 2000: 83).

Within the Department of Finance, the finance minister and senior officials hold more meetings and briefings than other departments (Savoie, 1999: 163). Senior officials reporting to the minister include the deputy minister, the senior associate deputy minister and the senior G-7 deputy. The organizational structure of the department includes two main divisions of interest: first, the Economic and Fiscal Policy branch is the main access point for IMF Article IV consultations and reports. Second, the International Trade and Finance branch co-ordinates IMF-Canadian relations, including communications with Canada's Executive Director's Office. Finance's respected, yet often disliked, central agency role in government decision making is legitimized by the noted expertise of its staff (Whittington and Van Loon, 1996: 582).

In advising the minister, the department relies on the analysis of its staff, although Harris (2004) argues that in the Department of Finance, senior staff members tend to tell the minister what the minister wants to hear. That said, the minister of Finance must depend greatly on the technical and intellectual capital of the department's staff in proposing department positions. Similarly, finance staff and officials have continued to regard themselves historically as part of a place where policy and programme advice is based on intelligent, academic economic analysis

(Savoie, 1999: 160). In its performance review, the Department of Finance portrayed itself as “a knowledge organization, a policy department, and a central agency” (Department of Finance, 2003). Much of the department’s analysis and research is done in-house, but there seems to be a general degree of openness to external assessments, ideas and research.

One opportunity to attain expert external assessment and research on Canada’s economy is through the annual Article IV consultations with IMF staff. But do Department of Finance staff perceive these bilateral surveillance mechanisms to be useful? To understand the perceived utility of IMF Article IV consultations, 15 Canadian Department of Finance staff involved in the consultations were interviewed in Ottawa in April 2005.

In determining Department of Finance staff views of the surveillance process, questions were posed regarding the composition of the IMF staff team visiting Canada and Finance perceptions of IMF staff. Finance staff noted that the composition of the IMF Article IV consultation team provided a good mix of individuals from the Fund’s various departments. According to one Finance staff member, it was preferable to deal with a variety of IMF staff members, so that the consultations felt more institutional in scope. When asked about whether the frequent changes in the composition of staff teams (every two to three years) was a negative factor, as voiced by many developing countries, several Finance staff members suggested that this was a more professional approach to the consultation process, because it did not personalize the advice and discussion. Once again, one was dealing with the IMF as an institution.

Almost consistently, Finance staff were of the opinion that the IMF staff came with sophisticated expertise and technical advice. Indeed, Finance staff thought the Fund staff were very competent, knowledgeable about Canada and technically skilled. When asked what made Fund staff members’ expertise noteworthy, several Finance officials pointed to their academic training: the perception was that IMF staff were recruited from the best academic institutions, in particular MIT and the University of Chicago. One Finance staff member noted that after meeting Fund staff, Finance staff would “wish we could hire them.” Other Finance staff pointed out that Fund staff consistently asked pertinent questions that demonstrated intellect and insight into Canada’s economy. Overwhelmingly, though, Finance staff thought IMF staff had expertise because the Fund was privy to cross-comparative research and data from other countries.³

Simply put, Finance staff accorded Fund staff a great deal of respect because they assumed that the Fund had a good sense of the “big picture,” and could provide interesting angles, as opposed to ideas, about what had or had not worked in other economies. That said, Finance staff

suggested that Fund staff rarely contributed cross-comparative analysis and that perhaps in improving the Article IV consultations, greater discussion about other countries' experiences would be useful and beneficial. In a rare request, Finance staff asked the IMF to conduct a study on Canada's budget forecasting techniques, as compared with other industrialized countries' experiences and practices. Even though the Department of Finance had already commissioned the Bank of Montreal's Dr. Tim O'Neil to conduct a similar study, it asked the IMF to also externally assess the Department's methods. This study was turned into an IMF working paper (Muhleisen et al., 2005), and excerpts were included in the 2005 Article IV consultation report (see IMF, 2005: 19); however, this was a rare Finance utilization of Fund staff resources.

Finance staff frequently compared the surveillance conducted by the IMF and by the Organization for Economic Cooperation and Development (OECD). Overwhelmingly, Finance staff noted that the OECD surveillance process and the resulting Canada Report were more beneficial exercises than that conducted by the IMF, particularly on structural issues. What made the OECD process more useful was the greater emphasis on dialogue and exchange, and Finance staff input into the resulting Canada report. The OECD surveillance process had a back-and-forth element not found in IMF consultations. OECD surveillance teams visited Canada more frequently, offered more analysis and research, and had more committees with focused attention to policy issues that pertained to Canada. That said, Finance staff noted that they did not perceive OECD economists to be nearly as technically skilled and intelligent as the IMF staff, but that the OECD economists had more policy-relevant advice that was usable. Moreover, when asked if the Finance department staff used the Fund's Article IV consultation reports as background reading, support or research in their work activities, overwhelmingly the answer was negative. That said, in the financial sector branch, IMF reports were referred to when supporting Canada's policies; in particular, in an Article IV report it referred to Canada's financial services policies as "safest and soundest," adding support to branch activities.

Most Finance staff pointed out, many independently and without prompting, that they frequently utilized OECD reports and research in their analysis. For them, the OECD reports were user-friendly and had better practical policy advice. One senior department official pointed to Finance's use of the OECD cross-comparative health study in 2004. Notwithstanding the strong technical and intellectual soundness of the IMF staff advice, the Fund's prescribed advice was deemed to be less policy relevant and less politically feasible. More senior Finance staff and officials expressed this sentiment most strongly.

In order to determine whether Department of Finance staff perceived the surveillance process to be a learning experience, questions were posed

about whether IMF staff brought new ideas to the Finance staff's attention. Finance staff declared that, overall, the Article IV consultation experiences were positive academic and intellectual exchanges. All Finance staff interviewed found the Article IV consultations useful as a forum for sharing knowledge and for discussing economic issues pertaining to Canada. As one senior Finance staff put it, "Article IV Consultations were a check on the robustness of our analysis, of our storyline." Other Finance staff suggested that the Article IV consultation process provided an opportunity to hear what the "outside world thinks of Canada" and to hear the "best outside evaluation of Canada's economy." When the IMF commended Canada in its reports, the Department of Finance staff found it useful to use IMF quotes as evidence of external approval.

Although many Finance staff members concurred that Fund staff opinions of Canadian economic policies were not perceived to be all that important, others who had been in the department longer pointed out that in the mid-1990s, the Department of Finance was "shamed" by negative IMF Article IV reviews and used this to muster government support for decreasing the federal deficit. That said, it was pointed out that in the mid-1990s, Canada had several negative external assessments of its economic policies, beyond those issued by the Fund, that effectively shamed Canadian policy makers into action. One Department of Finance official pointed out that politicians and Finance staff were particularly embarrassed by a January 1995 *Wall Street Journal* article that claimed Canadian deficits meant Canada was "an honorary member of the Third World." This editorial article had a negative effect on the morale of the department and of the federal government.

In interviews, Finance staff concurred that the Article IV consultation processes were learning experiences, but that the process did not bring in new ideas that could be used in their work. They found the consultations to be a positive use of their time, unintrusive, and with few costs involved, but they did not find that IMF staff brought new approaches and ideas to the department. As one Finance staff member put it: "There are not enough new ideas out there." Simply put, the economics discipline offered few novel ideas that had not been attempted in the past. IMF staff did not bring new ideas with them, and although the exchanges were deemed interesting and beneficial, rather than just symbolic and ceremonial, the written consultation reports were barely used in guiding the workings of the Finance Department.

Of the questions posed to the Finance Department staff and officials regarding the perceived utility of the IMF's advice, perhaps the most important one was: Would IMF consultations and resulting reports change internal thinking about issues? Or would IMF thinking change policy advice and considerations made to more senior Finance staff? Overwhelmingly, the answer was negative. By all accounts, Finance staff appreci-

ated the consultation process for the exchange of ideas and the positive experience of observing highly skilled IMF staff present and discuss economic issues pertaining to Canada. As one Finance staff member lamented, because they do not themselves have the time and resources to conduct academic research, as the IMF staff do, it was a refreshing academic exercise to converse with Fund staff. That said, Finance staff members did not change their analysis and views based on Fund consultations and reports. Again, the main challenge in adopting Fund advice was the limited policy applicability of some of the Fund's advice. The Fund's staff members were clearly regarded as academically strong, but their weakness lay in their limited ability to offer practical policy advice.

Specifically, Finance staff members dismissed the Fund's advice on reforming EI to take into account "experience-rating." This idea had been circulating within the Department of Finance in the mid-1990s, prior to being proposed by the Fund staff. Despite the idea's perceived economic benefits, Finance staff rejected the idea because of its political impracticality. However, Fund staff continued to include this suggestion in subsequent Article IV consultations. Similarly, Fund staff views on eliminating or reducing EI benefits to seasonal employees, primarily in eastern Canada, were also dismissed by Finance staff members for the negative regional implications. Fund staff views on merging financial institutions were helpful to the domestic policy debates on the issue, but the IMF was not telling the Finance staff anything they didn't already know. Similarly, Fund staff views on creating a national securities' advisor were limited by demarcated federal-provincial jurisdictions. That said, of those Fund policy suggestions that the Department of Finance did follow—lowering corporate income tax rates, lowering and indexing personal income taxes, and trade liberalization in textiles—the view of Finance staff members was that these were changes that would have happened anyway, independent of Fund advice and reporting.

How Member State Officials Would Improve Article IV Consultations

Based on Canadian Department of Finance staff comments and input, in addition to the Fund's internal evaluations of its Article IV consultations, this article concludes with a review of how member-state officials would like to improve the bilateral surveillance process for non-borrowing countries. The article also offers an analysis of the implications of various reform proposals on the Fund's organizational structure and broader political-economy implications.

Fund surveillance could be improved by expanding its scope to make the process more of a *learning* experience, offering the *new ideas* sought

by non-borrowing members. First, Fund staff could engage in specific studies on issues that matter to Canadian policy makers, like EI, health care and social policy reforms. The OECD includes these “Of Special Interest” papers in its surveillance as addendums to the surveillance reports. In the OECD’s *Economic Survey Canada 2004*, for example, specific studies were conducted on electricity, employment insurance and health care (see OECD, 2005). Similarly, the Fund’s own evaluation of surveillance found that member states complained that Article IV consultations were too much of a “catch-all vehicle to address a variety of Fund-wide issues” and could be improved with “narrower but, when necessary, deeper coverage of macroeconomically relevant issues outside the Fund’s traditional areas of expertise” (IMF, 2004a: 7). Again, the Fund could adopt OECD techniques of highlighting issue areas of concern to member states in more substantive ways.

Second, IMF Article IV reports could be improved by adding cross-comparative analysis. It is useful to note that Department of Finance staff believed that Fund staff had added knowledge because of Fund access to cross-comparative information, yet the Fund staff did not offer cross-comparative analysis to member states. This is a significant untapped resource. Similarly, in the Fund’s own evaluation of surveillance, member states noted this cross-comparative analysis as a desired Fund function (IMF, 2004a: 9 and 19). In particular, member states wanted more attention devoted to the “impact of global economic conditions and risks” and to “global capital markets” (IMF, 2004a: 9 and 19).

Third, Fund staff could improve the delivery of their Article IV reports by making them more reader friendly, with glossier, more colourful reports. Department of Finance staff noted that they referred to OECD specific studies because the presentation and language of the reports was more user-friendly, especially the use of appropriate figures and graphs. Finance staff are not alone in this complaint; according to the Fund’s own internal evaluation, its feedback suggested that surveillance reports could be improved by “tailoring the message for different audiences,” which would require changes to the “IMF’s style of writing and the length of its surveillance documents” (IMF, 2004b: 268). Improving the readability of the Article IV consultations would make them more useful to civil servants.

Furthermore, in improving the readability of the Article IV consultation reports and making them more useful, Fund staff could perhaps rely less on academic and theoretical models and instead speak in lay terms. It would be helpful to provide examples of the practical experiences of member states, demonstrating what works and what does not work. Member states have also pointed out, in the Fund’s own internal evaluation of surveillance reports, that “Fund advice fails to take into account existing political constraints, or is so optimistic about the ability of the govern-

ment to overcome them that it does not consider second-best policy choices that would be consistent both with the maintenance of macroeconomic stability and country-specific political realities” (IMF, 2004b: 12).

The academic and theoretical policy advice offered by Fund staff does not always fit with member states’ practical and political constraints. To improve the utility of the Fund’s advice, perhaps it could offer practical examples of policy implementation in other member states, highlighting the types of compromises and innovative ways of formulating policies that meet domestic political constraints while maintaining sound economic policies. Again, providing an evaluation of what policy reforms work and the political bargaining involved to get there would be a useful Fund function.

Improving Fund bilateral surveillance by making the content of the reports more accessible and usable to civil servants and policy makers can enhance learning. The reforms suggested above, however, also require changes in the composition of the Fund staff to include more policy-experienced staff members and Fund staff training in public administration science. Diversifying Fund recruitment and adding political-economy training to the skill set of Fund staff would be well received by civil servants and policy makers (Momani, 2005a). The Fund’s ability to move beyond its self-identified expertise in economic science to policy sciences will, undoubtedly, require slow change in organizational culture and behaviour (see Momani, 2005b).

Conclusion

The Fund is often viewed as the torchbearer and disseminator of a conservative macroeconomic ideology, loosely labeled “Washington Consensus,” being adopted by the world’s state finance ministries. Indeed, the case of Canada demonstrates that there is great respect for the analysis and advice offered by IMF staff, and for its theoretical and academic models, but there is a real disconnect between the policies prescribed and their policy relevance. For international organizations to be effective and persuasive teachers, their lesson plans have to be tailored to the needs of member states, offer strong cross-comparative analysis, and fit the political and policy constraints of member states’ governments.

What does this case tell us about the constructivist learning models applied to the study of international organizations? The case clearly demonstrates the need to test the assumption that norm changes occur from IO teaching. As it stands, many have observed broad patterns of norm changes in member states, and assumed that because IOs were the common denominator, then they must be effective norm teachers. This assumption was made in many studies, including the acclaimed Barnett and Finnemore studies, without the researchers actually meeting and inter-

viewing member states' bureaucrats. Both Checkel (2003) and Johnston (2001) are correct to assert that there are simply too many assumptions being made in these learning models, without the researchers "going micro" and conducting empirical testing. By asking civil servants important questions about the perceived value of IO lesson plans, we can learn a lot about the constraints of IO advice. Moreover, constructivists' broad study of normative discourses and social interactions needs to be complemented by traditional empirical, positivist testing (Simmons and Martin, 2002: 18). It is inadequate to argue that the IMF has taught state officials the principles embodied in the Washington Consensus simply because we observe that many countries are orienting their domestic policies toward this pro-market ideology. We need to discern broad historical paradigm shifts from learning models by narrowing the research plane and conducting empirical tests.

The single case study of Canada was a useful sample selected to test the learning model. That said, despite its internationalist orientation, comfortable economic position and relatively close technocratic alignment with the Fund staff, Canadian Department of Finance officials did not "learn" from the IMF because the Fund's advice was simply not conducive to Canada's domestic political situation. The point that needs to be made is that domestic politics also matters to the study of international organizations' impact on state behaviour. While constructivists are mapping pathways of influence and feedback loops, they need to stop and consider the domestic level of analysis. Regime type, political culture, social cohesion and so on will have a great impact on whether states internalize the broader IO norms and the specific policies being prescribed. Constructivist approaches to the study of IOs are relatively new, but there is a pressing need to develop better research and analytical tools.

Notes

- 1 Article IV consultation meeting dates were as follows: November 8–15, 1999, January 8–12, 2001, November 5–9, 2001, October–November 2002, November 12–19 2003, and November–December 2004.
- 2 The remainder of this section refers to Fund staff's Article IV consultation reports for the years 1999 through 2005.
- 3 Based on an interview with a former senior IMF staff member conducted in Toronto, Canada in February 2004, on the topic of Fund recruitment.

References

- Adler, Emanuel and Peter Haas. 1992. "Conclusion: Epistemic Communities, World Order, and the Creation of a Reflective Research Program." *International Organisation* 46 (1): 367–390.

- Arend, Anthony. 1999. *Legal Rules and International Society*. New York: Oxford University Press.
- Bakvis, Herman. 2000. "Country Report: Rebuilding Policy Capacity in the Era of the Fiscal Dividend: A Report from Canada." *Governance: An International Journal of Policy and Administration* 13 (1): 71–103.
- "Bankrupt Canada?" 1995. *Wall Street Journal* (New York), January 12, A14.
- Barnett, Michael and Martha Finnemore. 1999. "The Politics, Power, and Pathologies of International Organizations." *International Organization* 53 (4): 699–732.
- Barnett, Michael and Martha Finnemore. 2004. *Rules for the World: International Organizations in Global Politics*. Ithaca: Cornell University Press.
- Bryant, Ralph. 2004. *Crisis Prevention and Prosperity Management for the World Economy*. Washington, DC: Brookings Institution Press.
- Canada. 2005. *Report on Operations Under the Bretton Woods and Related Agreements Act, 2004*. Prepared by Department of Finance International Trade and Finance Branch for Parliament. Ottawa: Department of Finance.
- Checkel, Jeffrey T. 1999. "Why Comply? Constructivism, Social Norms and the Study of International Institutions." *ARENA Working Papers* WP 99/24. Oslo: ARENA, Centre for European Studies, University of Oslo.
- Checkel, Jeffrey T. 2003. "'Going Native' in Europe? Theorizing Social Interaction in European Institutions." *Comparative Political Studies* 36 (1–2): 209–231.
- Clark, Ian. 1996. "Should the IMF Become More Adaptive?" *IMF Working Papers*. Washington, DC: International Monetary Fund.
- Cutler, Claire and Mark Zacher. 1992. *Canadian Foreign Policy and International Economic Regimes*. Vancouver: UBC Press.
- Department of Finance. 2003. *Department of Finance Canada Performance Report—For the period ending March 31*. http://www.tbs-sct.gc.ca/rma/dpr/02-03/FIN-FIN/FIN-FIN03D01_e.asp#AppendixD (January 31, 2006).
- Finnemore, Martha. 1996. *National Interests in International Society*. Ithaca: Cornell University Press.
- Finnemore, Martha and Kathryn Sikkink. 1998. "International Norm Dynamics and Political Change." *International Organization* 52 (4): 887–917.
- Gould, Erica. 2003. "Money Talks: Supplementary Financiers and International Monetary Fund Conditionality." *International Organization* 57 (3): 551–586.
- Harris, Stephen. 2004. "Financial Sector Reform in Canada: Interests and the Policy Process." *Canadian Journal of Political Science* 37 (1): 161–184.
- Johnston, Alastair Iain. 2001. "Treating International Institutions as Social Environments." *International Studies Quarterly* 45: 487–515.
- Kahler, Miles. 1992. "External Influence, Conditionality, and the Politics of Adjustment." In *The Politics of Economic Adjustment: international constraints, distributive conflicts, and the state*, eds. Stephan Haggard and Robert R. Kaufman. Princeton: Princeton University Press.
- IMF. 1992. *Articles of Agreement*. Washington, DC: International Monetary Fund.
- IMF. 1999. *Canada—Selected Issues*. April 8. Washington, DC: IMF.
- IMF. 2000. *Canada: Staff Report for the 2000 Article IV Consultation*. February 18. Washington, DC: IMF.
- IMF. 2001. *Canada: 2001 Article IV Consultation—Staff Report; Staff Statement; and Public Information Notice on the Executive Board Discussion*. April 23. Washington, DC: IMF.
- IMF. 2002. *Canada: 2002 Article IV Consultation—Staff Report; Staff Statement; and Public Information Notice on the Executive Board Discussion*. March 12. Washington, DC: IMF.
- IMF. 2003. *Canada: 2003 Article IV Consultation—Staff Report; Staff Statement; and Public Information Notice on the Executive Board*. February 25. Washington, DC: IMF.

- IMF. 2004a. *Biennial Review of the Implementation of the Fund's Surveillance and of the 1977 Surveillance Decision—Overview*. <http://www.imf.org/external/np/pdr/surv/2004/082404.pdf> (January 31, 2006).
- IMF. 2004b. *Biennial Review of the Implementation of the Fund's Surveillance and of the 1977 Surveillance Decision—Modalities of Surveillance*. 2 July. <http://www.imf.org/external/np/pdr/surv/2004/082404.pdf> (January 31, 2006).
- IMF. 2004c. *Canada: 2004 Article IV Consultation—Staff Report; Staff Statement; and Public Information Notice on the Executive Board Discussion*. March 10. Washington, DC: IMF.
- IMF. 2005. *Canada: 2005 Article IV Consultation—Staff Report; Staff Statement; and the Public Information Notice on the Executive Board Discussion for Canada*. March 29. Washington, DC: IMF.
- IMF Survey. 2004a. "Interview with Jacques Polak." August 23: 33, 16. Washington, DC: IMF.
- IMF Survey. 2004b. "Making Surveillance More Effective." September 20: 33, 17. Washington, DC: IMF.
- McBride, Stephen. 2001. *Paradigm Shift: Globalization and the Canadian State*. Halifax: Fernwood Publishing.
- Momani, Bessma. 2004. "American Politicization of the International Monetary Fund." *Review of International Political Economy* 11 (5): 880–904.
- Momani, Bessma. 2005a. "Recruiting and Diversifying IMF Technocrats." *Global Society* 19 (2): 167–187.
- Momani, Bessma. 2005b. "Limits of Streamlining Fund Conditionality: the IMF's Organizational Culture." *Journal of International Relations and Development* 8 (2): 142–163.
- Muhleisen, Martin, et al. 2005. "How do Canadian Budget Forecasts Compare with Those of Other Industrial Countries?" *IMF Working Paper* WP/05/66. Washington, DC: International Monetary Fund.
- Oatley, Thomas and Jason Yackee. 2004. "American Interests and IMF Lending." *International Politics* 41: 415–429.
- OECD. 2005. *Economic Survey Canada*. <http://www.oecd.org/Canada> (31 January 2006).
- Payer, Cheryl. 1974. *The Debt Trap*. Harmondsworth: Penguin Books
- Peet, Richard. 2003. *Unholy trinity: the IMF, World Bank and the WTO*. London: Zed Books.
- Risse, Thomas, Stephen Ropp and Kathryn Sikkink, eds. 1999. *The Power of Human Rights: International Norms and Domestic Change*. Cambridge: Cambridge University Press.
- Ruggie, John. 1992. "International Regimes, Transactions and Change: Embedded Liberalism in the Postwar Economic Order." *International Organization* 36: 379–415.
- Savoie, Donald. 1999. *Governing From the Centre: The Concentration of Power in Canadian Politics*. Toronto: University of Toronto Press.
- Simmons, Beth and Lisa Martin. 2002. "International Organizations and Institutions." In *Handbook of International Relations*, eds. Walter Carlsnaes et al. London: Sage.
- Soederberg, Susanne. 2002. "The New International Financial Architecture: A Procrustean Bed for Emerging Markets?" *Third World Quarterly* 23 (4): 607–620.
- Thacker, Storm. 1999. "The High Politics of IMF Lending." *World Politics* 52 (1) (October): 38–75.
- Whittington, Michael and Richard Van Loon. 1996. *Canadian Government and Politics*. Toronto: McGraw Hill Ryerson.
- Williamson, John. 1990. *Latin America Adjustment: How Much Has Happened?*. Washington, DC: Institute for International Economics.