Complexity, Emergence and IMF Responsibility

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] Introduction

Nearly a universal institution with 187 member countries and $842 billion dollars in resources, the International Monetary Fund (IMF) is most likely the most powerful of all international organizations. Originally mandated to manage a fixed exchange rate system, the IMF has extended its influence into development projects by promoting market-based economic reforms in low-income countries (LICs). The IMF's complex governance and hegemonic free-market economic polices in congruence with the complex variances in domestic realities of its loan receiving member countries, establishes a system that simply does not produce a sustainable economic system that safeguards human rights and socio-economic equality. On the contrary, IMF policies violate human rights of member state's citizens and increase inequality. [1] Responsibility for negative loan consequences must reach beyond traditional notions of territorial sovereign boundaries to the initiator and creator of the reforms — the IMF. The purpose of this paper is to examine the IMF and its continued use of loan conditionalities, despite their aberrant affects, and challenge its inborn unaccountability for negative loan outcomes.

To establish this argument, I first look at IMF's governance through a complexity theoretical lens showing the existence of an emergent behavior — a group identity. Next, I contend the IMF is morally blameworthy and collectively responsible for the negative consequences resultant from its loan conditions. Finally, I examine IMF management strategy and argue the Fund must look at complexity and its role in IMF development policies. Ignoring complex interactions by not appropriately adapting, the IMF is reproducing negative outcomes and should be held responsible for its role — intended or not.

IMF as a Complex System

Complexity theory helps us theorize the intricate and diverse interactions occurring in organizations, such as the IMF, and how these interactions create unexpected and unintended outcomes. Most organizations' notions of linear cause and effect guidelines do not recognize the countless interactions, any number of which can transform the larger setting. Complexity theory recognizes "the impossibility of connecting all elements together, the impossibility of complete observation and representation of phenomena that would require connecting each element with every other element." [2] Like the cells in our body, these elements interact within a system that delineates a boundary distinguishing its environment — a complex system. [3] Complex systems consist of numerous components with a multitude of interactions between them that involve unexpected encounters and sequences not immediately visible or conceivable. [4] Complex systems share common characteristics such as — complex collective behavior, signal and information processing, and adaptation. [5] The IMF is a complex system because it consists of many small administrative parts, each with their own procedures and modicums of power; the IMF produces and uses information and signals to carry out their worldwide operations; and, the IMF constantly adapts its policies and amends its Articles of Agreement. The diagrams below show the IMF governance system. Note the hierarchies and the complex interactions with internal and external participants.

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The complex web of hierarchies and interactions demonstrates how a complex system appears as an organization.

The IMF has grown more complex by operating in a wider range of environments with numerous tools and staff in multiple countries simultaneously. Since its inception in 1944, the IMF has evolved from a lender to industrialized nations with foreign exchange deficiencies to the international lender of last resort. Complexity theory postulates that complex systems self-organize creating an emergent pattern wholly unexpected. [7] IMF's evolving role as a multilateral organization is the result of self-organizing patterns whereby, "the structure of the system is continuously transformed through the interaction of contingent, external factors and historical, internal factors." [8] Through self-organizing, the IMF recreates itself in response to its internal and external stimuli. For example, the Fund continuously develops different loan types, an Independent Evaluation Office, debt forgiveness programs, and policies aimed at poverty reduction. Yet, since the 1970s, the Fund still requires economic reform conditions on most of their loans, especially those made to LICs. [9]

Imposing conditions is the most controversial aspect of IMF governance and policy. Scholars and economists dispute the efficacy of conditionalities since their inception. In a sense, "[e]xplicit IMF conditionality is thus meant to substitute for the lack of safeguards in private lending and, by analogy, to benefit borrowers by making loans more available." [10] Through decreasing the possibility of moral hazard, the IMF confidently lends funds to democracies and despots. In other words, "a loan is held out as the carrot, with conditionality as the stick." [11]

The IMF designs conditions to develop free market economies to attract outside investors and nurture integration into

the global economic system. As the IMF itself explains, ”[we] found that a much broader range of institutional reforms is needed if countries are to establish and maintain private sector confidence and thereby lay the basis for sustained growth." [12] The IMF’s recipe for sustained growth includes the deregulation of international trade and finance, which entails — lowering or eliminating tariffs on imported goods, dismantling quotas and domestic monopolies, deregulating capital markets, introducing currency convertibility, and opening industries and stock and bond markets to direct foreign ownership and investment. [13]

The IMF increased the use of conditionalities over the years with the average, at the end of the twentieth century, totaling twenty-five. [14] The Fund promotes conditionalities as a cooperative approach between the IMF and member country in designing and implementing economic reforms. [15] However, the IMF and the state’s executive negotiate the loan. Both can be unaccountable for negative outcomes.

Complexity theory recognizes that actions have indirect and complicated effects that may generate unintended results not correlated with the actor’s intentions. [16] In a system, ”the fates of the units and their relations with others are strongly influenced by interactions at other places and at earlier periods of time." [17] Despite IMF intentions, its programs do not produce economic growth. William Easterly studied loans from 1980 to 1998 and found ”no direct effect of structural adjustment on growth," and the amount of change in poverty rates given some growth is lower when a country is operating under structural adjustment loans than when it is not. [18] Vreeland’s study of 135 countries from 1951-1990, which substantiates 3,991 observations concluded, ”[t]here is no evidence that IMF programs help growth or even have benign effects. IMF programs hurt economic growth." [19] Despite these unintended outcomes, the IMF continues to impose similar economic reforms.

Emergence and Collective Responsibility

Emergence provides a basis to theorize collective identities rising from interactions within complex systems. Its central claim is the character of the whole cannot and should not be reduced to the character of the individuals. [20] This emergent behavior is the manifestation of ”collectively autocatalytic patterns of order in human affairs" — individual identities and behaviors influenced by the background processes of the context in which the group participates. [21] The emergence paradigm offers two distinct levels of social reality to our analysis — stable and ephemeral emergents. The stable emergent represents the ”shared, collective history of a group…including group learning, group development, peer culture, and collective memory." [22] The stable emergent represents the group’s identity and meta-narrative constricting realms of possibility. The ephemeral emergent, on the other hand, represents ”the interactional frames of conversation analysis," such as, topics, contexts, and participatory structure. [23] These two emergents constrain all social interactions within their bounded space. The IMF, as a social institution, constructs individuals and states into ideologues. As such, ”multilateral institutions possess a clear coercive quality: [a]ctors who enter into a social interaction rarely emerge the same.'" [24] The collective discourse imposed and accepted through IMF interactions are free-market economics that can have negative consequences. Through emergence theory we can frame the IMF as a collective with identity, goals, morals, and responsibilities.

The IMF’s internal and external interactions are framed by a historical and psychosocial understanding of IMF policies and cultures — namely, free market economics and neoliberal policies. Sawyer mentions, that ”[a]lthough the frame is created by participating individuals through their collective action, it is analytically independent of those individuals, and it has causal power over them." [25] The IMF’s stable and ephemeral emergents, effectively, bounds the space through which IMF actors navigate their economic world. Through complex interactions at the Fund, policies emerged that constrain interactions within the IMF loaning processes and their relationships with member countries. In this way, the IMF has ”coordinating control" over what happens in the organization — a necessary requirement for collective responsibility. Shockley observes, ”the collective serves as an enabling condition of individual blameworthy agents to perform harmful acts." [26] Without this enabling condition, without the IMF, the blameworthy individuals have no behavioral outlet.

A shared history, language, and culture influence and define how IMF policies are developed and fulfilled. The Articles of Agreement serve to describe the rights and obligations of the ratifying member countries, and serve as the Fund’s constitution enumerating the principles and purposes guiding its daily operations. The Articles of Agreement serve as an internal constitution that Anna Stilz believes, ”specifies binding decision procedures and allocates responsibilities to various roles, such that any act taken in accordance with these procedures qualifies as an act of the entire group." [27] As Stilz contends, the IMF can be collectively responsible for their actions. Meaning, both causal responsibility and blameworthiness locates the source of moral responsibility with the IMF itself. [28]

Responsibility is essential when there is a correlation between human rights violations and IMF programs. In Abouharb and Cingranelli’s study ”[b]ased on an analysis of outcomes in 131 developing countries between 1981—2003, we show

that, on average, structural adjustment has led to less respect for economic and social rights, and worker rights." [29] Compliance with IMF reforms causes governments to decrease respect and protections for most human rights, including the rights to decent jobs, education, health care, and housing. Vreeland's study points to this discrepancy — IMF programs have negative distributional consequences. This finding holds across data sets and methodologies. If IMF programs hurt economic growth and redistribute income away from labor, labor is worse off — in terms of income — when countries participate in IMF programs. For other constituencies, however, there is a trade-off: growth decreases but share of income increases...negative effects of IMF programs on economic growth are paid for by the least well-off in a country. [30]

Many governments respond to civil protests by torturing, disappearing, murdering, and imprisoning their citizens. [31] In response to allegations that the IMF ignores human rights consequences of its activities, an IMF spokesman said that it was not obligated to promote human rights and its mandate did not include the protection of human rights. [32] However, International law has shifted into recognizing non-state entities owing a duty to protect and uphold the dictates of law. [33] If the state is unable or unwilling to take responsibility for negative effects stemming from IMF programs, the IMF should fill that void.

Emergence provides a theoretical explanation to the phenomena of distorting, threatening, and harmful consequences resulting from the actions of individuals. [34] By controlling the contexts ethically, socially, culturally, and intellectually, the IMF effectively creates an independent identity that its subjects adhere to and are influenced by. [35] In this way, individual responsibility transfers to the collective. Larry May provides a two prong relational approach to delineate collective and individual actions. He notes — The first condition is that the individuals in question be related to each other so as to enable each to act in ways that they could not manage on their own. The second is that some individuals be authorized to represent their own actions as the actions of the group as a whole. [36]

May's observation recognizes that collective responsibility eclipses the individual. The whole cannot be reduced to its parts. However, arguments rejecting collective responsibility rest on the premise that individuals are the sole bearers of moral responsibility and groups cannot formulate actions to the same degree as individuals because there is a lack of group intention. [37] Emergence, however, counters by analogizing natural phenomena of collective identity borne out of complex interactions in unintended ways.

Complexity in a Complex World

By analyzing the IMF as a complex actor in a complex world, we can critique its management strategy and assign responsibility for its continued use of inappropriate economic reforms. The IMF mobilizes what McMillan calls "a deliberate strategy" that assumes four key approaches to change and adaptation — (1) time is viewed as linear and sequential; (2) change is an incremental process of adjustment; (3) the concept of fit' is all important; and, (4) the direction that change has to take is clear and that by using specific and appropriate skills the required designations will be reached. [38]

Besides changes in internal policies, the IMF constantly renegotiates current loan conditions with member states. If both the IMF and member country agree the conditions of their arrangement no longer fit, the country cancels the program so a new program with new conditions can be introduced. Conway notes, "[c]ancelation is then a signal not of conflict but of cooperation, and is usually followed by immediate agreement on a new program with new conditions." [39] Because of the Funds willingness to renegotiate their loans, many states have been participating in IMF agreements for many years. For example —

South Korea spent 13 years under consecutive agreements…Zaire 14 years straight…Liberia 15…Peru participated in consecutive agreements from 1954 to 1971…Panama from 1968 to 1987…And after a stint of 7 years (1961 to 1967), Haiti entered into agreements again from 1970 to 1989, for a total of 27 out of 29 years. [40]

Consecutive loans are the norm, not the exception. Nations requiring IMF assistance for decades may further exemplify the ineffectiveness of IMF programs and its attachment to linear based cause and effect economic reform policies that ignore issues of complexity.

Complexity theorists argue an organization should not operate using the "deliberative strategy." Instead, the organization should mobilize an emergent strategy that considers the organization as a whole — its governance, principles, values, and core belief system. [41] This strategy requires the IMF to adapt beyond constantly changing loan conditions to critically examining its use of conditions and its role in economic development. These changes require critical and reflective learning, which analyzes policies and their affects as opposed to continuous application through normal procedures. Montuori calls this later type of learning "maintenance learning" and notes - [the

organization is] incapable of questioning its own assumptions and of engaging in change but more of the same'. Unable to question its own origins and guiding framework, maintenance learning allows us to learn only within a pre-established framework, but does not allow for free enquiry. [42]

Maintenance learning is superficial, limited and routine. It is more coping than adapting and does not transform relationships or itself. This strategy describes the IMF's continued use of neoliberal economic reforms in LICs despite their negative economic and human rights effects. To do otherwise requires a critical examination of capitalism itself, which the IMF would not do — its survival is intimately tied to the survival of capitalism.

IMF's broad scope of actions presupposes that no economic projection model, linear or nonlinear, can effectively analyze the innumerable interactions that can occur. Therefore, the IMF attempts a reductionary analysis of its policies that do not account for all possibilities. Paul Cillier posits — The failure to acknowledge the complexity of a certain situation is not merely a technical error, it is also an ethical one. We cannot make purely objective and final claims about our complex world. We have to make choices and thus we cannot escape the normative or ethical domain… normative issues are intertwined with our very understanding of complexity. [43]

IMF procedures maintain loan agreements that promote economic reforms modeled to fit IMF and state executive interests, which may completely ignore marginalized populations. Despite complexity and interest convergence, a decision is made without examining all possibilities. As Ciller again notes, "[w]e cannot avoid making a decision, and we can also not escape accepting responsibility for its outcome, even if the outcome was something that could not be foreseen." [44] The IMF passes responsibility for the failure of its programs to the state by claiming lack of reform "ownership." Balakrishnan Rajagopal states that ownership is "a meaningless concept in the end because the real question concerns whose ownership is involved — that of the state or the local community?" [45]

LICs generally critique IMF economic reforms as impositions — reforms they would not choose themselves. Cilliers advocates some provisional ethical rules, in which respect for differences takes central stage, "to make a responsible judgment…would involve at least…respecting otherness and difference as values in themselves." [46] For example, the developed countries, while in the same state of development as the LICs, did not use similar policies a century ago. Indeed, many of the advanced capitalist societies applied protectionist economic policies after free trade failed. [47] Kunneman posits that respecting otherness has political implications —

it implies a critique of and resistance against all master-narratives presenting a unified view of all social relations, in which crucial differences are blocked from view or presented as irrelevant in view of a supposed "general interest." [48]

Differences in economies, in people, and in needs undergird the inherent lack of foresight that ascribes IMF reforms. The one size fits all neoliberal reforms do not work for every country, especially LICs. At the least, new policies must emerge that take into account human rights and successful economic reforms that will benefit the state and its citizens. At the most, the IMF should retreat from their role in development.

Conclusion

The IMF is a complex system that operates in a complex world. By examining its emergent properties, we can see a collective identity that is cogent of its actions and capable of moral blameworthiness and responsibility. IMF's flexibility and adaptation is inherently aware of global complexity, but the continued use of neoliberal market reforms through conditional lending is at the heart of human rights violations and inequality. IMF strategies of adaptation rely on superficial linear formulations and not on strategies that utilize complexity analysis. By rigidly fixing themselves in a bounded state, the Fund is incapable of ethically and meaningfully interacting with its diverse LIC members.