Assessing the Utility of Canada's IMF Article IV Consultations

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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 international organizations' (IO) adept staff teach state civil servants and officials on how to better formulate sound policies. However, constructivists' theoretical assumptions about IO teaching and state learning needs further empirical study to elucidate their arguments. 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 in the Article IV Consultations rarely, if ever, change their economic analysis because the Fund's advice tends to not be practical. Based on Canadian Department of Finance staff suggestions, complemented by IMF evaluations of its bilateral surveillance, this paper concludes with recommendation to improve on the utility of Article IV consultations.

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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 states 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 when members accept the IMF's Articles of Agreement. The Article IV Consultation reports are detailed external assessments of exchange rates, fiscal policies, monetary policies, financial sector policies, and structural policies conducted by highly regarded Fund economists. 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, 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, albeit 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 and reports? Finance Department personnel will be interviewed; specifically, personnel who participated in Article IV Consultations and personnel who manage Canadian-IMF relations. Interviews with Finance Department officials and personnel will be conducted to determine whether Finance personnel use IMF advice in proposing policies to higher department officials and to assess these personnel's perception of key components of the IMF reports, of the bilateral consultation process, of the IMF staff, of the utility of IMF economic advice, and finally how to improve bilateral surveillance.

In addition Finance Department documents and communiques with the Fund, acquired through the Access to Information Act, will be reviewed. The IMF's annual Article IV Consultation reports conducted on Canada are codified to assess what policy recommendations and economic observations the IMF staff made during their consultations with Canadian representatives. The time period under investigation will be from 1999-2005, to ensure that Article IV Consultation participants have been interviewed. This paper will be an important addition, generally, to the globalization literature that look for connectors between international organizations and domestic civil servants, and more specifically, to constructivist literature that view international organizations as teachers and states as learners.

International Organizations as Teachers and States as Learners

A growing body of literature in international organization theory, loosely labeled as constructivist for its emphasis on intersubjective understanding of international institutions, suggest that international organizations instruct civil servants on how to better perform their work in accordance with internationally held standards of behaviour and in accordance with accepted beliefs and norms. In this vein, international organizations are viewed as the agents of change, molding state preferences by 'teaching' states on how to conform their behaviour (See Finnemore, 1996). International organizations are not passive actors used at the whim of states, rather international organizations can identify problems, provide solutions, and assist states in changing their preferences (Ibid.). Consequently, international organizations, that are in effect 'socializing agents', prepare states to become 'norm followers' (Finnemore and Sikkink:902)

The Fund is often at the centre of both analysis and debate about the diffusion of a powerful economic ideology standardizing state behaviour coined the 'Washington Consensus'. These conservative macroeconomic policies prescribed include budget 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 Fund's conditions placed on its loans, the Fund has effectively prescribed the Washington Consensus to borrowing members. The Fund has also become perceived to be the torchbearer of this powerful economic ideology that has permeated most states' policy making machinery, both borrowing and non-borrowing members alike. Loan conditionality is often viewed as 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 authority to teach its members the principles embodied in the Washington Consensus (Ibid.).

International organizations' highly respected expertise of its bureaucrats accords them great influence with states (Finnemore and Sikkink:899; Barnett and Finnemore, 2004). The IMF, in particular, is often viewed as a technocratic institution staffed with 'the best 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 to be grounded in the best economic analysis available (Ibid.; Momani,2005a). This gives the Fund deference and respect for its policy advice, opening the channels for states to learn from the Fund.

One of the noted limitations of the literature on IO teaching and state learning is the lack of 'empirical testing' that documents the 'microprocesses' 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 noms (Risse et. al, 1999). These studies have not, however, shown the 'pathways and mechanisms' of IO and state interaction (Checkel, 2003:209). Constructivists suggest the IOs, as Checkel explains, "...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). Better understanding the interaction between international organizations' staff and domestic civil servants would be an important empirical study to raise further questions.

Some of the questions to be asked include: What are civil servants' perception of the IO 'lesson plans'? Do civil servants weigh-in 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 by many constructivists' studies purporting IO's as teachers and states as learners. The IMF, in particular, is often highlighted as one of the more powerful international organizations with highly regarded economists, what does one of its "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 IMF's Article IV Consultation Reports on Canada: 1999-2005

The IMF's annual Article IV Consultations on Canada take place in Ottawa, mainly with Department of Finance officials.[1] Although, other government agencies periodically consulted include the Bank of Canada, Superintendent of Financial Institutions, Health Canada, and Human Resources Canada. Years 1999-2005, external meetings were intermittently conducted upon IMF staff request with: (listed in order of frequency) the Canadian Labour Congress, leading Canadian Financial Institutions, Toronto Stock Exchange, Ontario Securities Commission, and both 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 and 2004 Article IV reports, the IMF staff noted its concerns with 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 of the U.S.). That said, in its 2002, Article IV report, the 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 purported 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).

The Fund staff noted in its 1999-2005 consultation reports (with exception of its 2003 report), that inflation levels were favourably low, welcoming inflation targeting set at 1 to 3% since 1991. From 1999- 2002, the Fund staff consistently commended Canadian authorities on meeting inflation targets and felt that this maintained investor confidence in the Canadian economy. Similarly, Canadian authorities highlighted their successes at maintaining inflation targets (although consumer price index increased more rapidly) and they pointed out that Canada's monetary policy would be guided to ensure meeting continued inflation targets. After September 11th and surge in prices, Canadian authorities exceeded the 3% target maximum. In light of the extraneous circumstances, the Fund staff in its 2003 report noted that they were still pleased with Canada's handling of the situation. In its 2004 report, staff noted that Canadian officials effectively returned inflation levels within the target range. Consistently, both Canadian authorities and Fund staff agreed that Canadian monetary policy would, however, hinge on performance of the U.S. 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% 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 IMF staff 2000 Article IV Consultation, Fund staff argued that Canada needed to reform its income tax structure. Canadian authorities and the 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 2001 Article IV Consultation, the Fund staff repeated its suggestion that personal income tax be indexed and that corporate taxes needed to be reduced in level with other industrialized countries to avoid 'bracket-creep' disincentives. 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 more could be cut.

Almost consistently, the IMF staff reported in the its 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 "considerable pressures they faced to increase spending...with priority continuing to be given to education and health care" (IMF 2000: 21). Fund staff continuously warned 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 ratifying the Kyoto protocol, could not be financed under existing budget projections.

In its 2003 and 2004 staff reports, the Fund noted that Canadian proposals to add pharmaceutical and long-term care coverage into the health system would be difficult to finance, short of introducing user fees and other cost-sharing policies. Fund staff noted that to Canadian authorities, the latter private initiatives were deemed "antithetical to the principle of universal access," (IMF, 2003:21). Canadian authorities noted 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 program creates 'poverty traps' that create disincentives for people to seek work and get off social assistance; but, the report noted that there were reform efforts underway in Alberta, Ontario, and British Columbia that were reducing dependency on welfare. The Fund staff did recommend, however, that restricting eligibility claims, adding time limits to social assistance, and using education and training programs to assist welfare-recipients, could be used as 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 program. 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. Again in its 2001 report, the Fund staff reiterated the value of implementing an 'experience-rating' EI system. In its 2001, 2002, and 2003 reports, Fund staff also raised concerns with the removal of intensity rules on EI benefits (previously in place from 1996-2000) 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, the Fund staff again "pushed for further reforms" of the EI programme. In the 2000, 2001, and 2004 Article IV Consultation reports, the Fund staff "expressed concern" at the government's proposed maternity and paternity leave benefits under the Employment Insurance programme, noting the added costs to the system that "caused substantial deadweight losses" (IMF, 2004c:19). Moreover, the Fund took concern with using the EI system to effectively fund social assistance guised as paternal benefits (IMF, 2005:23). Canadian officials commented that these policies were part of the government's spending priorities on children and families.

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

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 Chretien, 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 more often try to object to new proposals that require funds. This role as 'internal government opposition' keeps a check on the government from within (Ibid: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 have more meetings and briefings than other departments (Savoie, 163). Senior officials reporting to the Minister include: the Secretary of State, Deputy Minister, Senior Associate Deputy Minister, and the Senior G-7 Deputy. The organizational structure of the department includes three main program divisions: Economic and Social Policies; Public Debt; and, Federal-Provincial Transfers. Under the Economic and Social Policies program, two branches are involved in IMF affairs. 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 Varloon, 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 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 staff in proposing department positions. Similarly, finance staff and officials have continued to historically regard themselves as part of a place where policy and program advice is based on intelligent, expert-like 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 of Finance'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. In the Department of Finance's International Trade and Finance Branch's report to the Canadian Parliament, it notes that one of the benefits of Canadian membership in the Fund is that:

> The 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, other government agencies and the Bank of Canada (Canada, 2005:7).

The Canadian government favours continued Fund surveillance, but how useful are these bilateral surveillance mechanisms as perceived by Department of Finance staff? To understand the perceived utility of IMF Article IV consultation, Canadian Department of Finance staff involved in Article IV Consultations were interviewed in Ottawa in April 2005.

In determining Department of Finance staff views of the surveillance process, questions regarding the composition of the IMF staff team visiting Canada and perceptions of the IMF staff were posed. Department of Finance staff noted that the composition of the IMF Article IV Consultation team was a good mix of individuals from the Fund's various departments. According to one Finance staff, it was preferable to deal with a variety of individuals so that one felt you were dealing with an institution. When asked about whether the frequent 2 to 3 year changes in the composition of staff teams was a negative, 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, again one was dealing with the IMF as an institution.

Almost consistently, Finance staff interviewed had found that the IMF staff came with sophisticated expertise and technical advice. Indeed, the Finance staff thought the Fund staff were very competent, knowledgeable about Canada, and technically skilled. When asked what made the Fund staff expertise noteworthy, several Finance officials pointed to the IMF staff's academic training. It was believed that Fund staff were recruited from the best academic institutions, noting

MIT and the University of Chicago. One Finance staff member noted that after meeting Fund staff, Finance staff would say 'wish we could hire them'. Other Finance staff pointed out that Fund staff consistently asked pertinent and poignant questions that demonstrated intellect and insight about Canada's economy. Overwhelmingly though, Finance staff thought IMF staff had expertise because the Fund was privy to cross-comparative research and data of other countries.

Simply put, Finance staff accorded the Fund staff a great deal of respect because Finance staff assumed that the Fund had the 'big picture' and could provide interesting angles, as opposed to 'ideas', about what had worked and what had not in other economies. That said, Finance staff suggested that the 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, the 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, they asked the Fund staff to also externally assess the Department's methods. This study became an IMF Working Paper (Muhleisen et al., 2005) and excerpts were included in the 2005 Article IV Consultation report (See IMF, 2005:19), but was a rare Finance utilization of Fund staff resources.

A comparison was frequently made, by the Finance staff, of 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 resulting Canada Report were more beneficial exercises than the IMF, particularly on structural issues. What made the OECD process more useful was the greater emphasis on dialogue, 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 had more frequent visits with Canada, 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 credence to branch reports.

Most Finance staff pointed out, independently, 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 that was deemed less policy relevant and less politically feasible. This sentiment was held more strongly with more senior Finance staff and officials.

In determining whether Department of Finance staff perceived the surveillance process as a learning experience, questions regarding whether IMF staff brought new ideas to the Finance staff's attention were posed Finance staff purported that the overall 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 and converging 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". Although many of the Finance staff concurred that Fund staff opinions of Canadian economic policies were not perceived as all that important, others who had been in the Department longer pointed out that in the mid-1990s, Department of Finance were '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 in the mid-1990s, Canada had several negative external assessments of its economic policies beyond the Fund that effectively 'shamed' Canadian policy-makers into action. One Department of Finance official pointed out that politicians and Department of Finance staff were particularly shamed 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 morale effect on the Department and the federal government.

Finance staff interviewed concurred that the Article IV Consultation processes were 'learning experiences', but the process did not bring in new ideas that could be used in their work. Finance staff found the consultations to be a positive use of their time, unintrusive, with little costs involved, but they did not find that IMF staff brought new approaches and ideas to the Department. As one Finance staff put it: "there are not enough new ideas out there". Simply put, the economics discipline had few novel ideas that had not been attempted in the past. The IMF staff did not bring new ideas, and although the exchanges were deemed useful, beneficial, and not just symbolic or ceremonial, the consultation reports were less useful to the workings of the Finance Department.

Perhaps the most important question posed to the Finance Department staff and officials regarding the perceived utility of the IMF's advice was, would IMF consultations and resulting reports change internal thinking about issues or change policy advice and considerations made to more senior Finance staff. Overwhelmingly, the answer was negative. On all accounts, Finance staff appreciated 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 lamented, because Finance staff do not have the time and resources to conduct academic research like the IMF staff, it was a refreshing academic exercise to converse with the Fund staff. That said, the Finance staff 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 were clearly perceived to be strong academically, but weaker on offering practical policy advice.

Specifically, Fund advice on reforming EI to take into account 'experience-rating' was dismissed at the outset. This idea had been circulating within the Department of Finance in the mid-1990s, prior to being proposed by the Fund staff. Despite dismissing the idea at the outset for its political impracticality, the Fund staff continued to include this in subsequent Article IV Consultations. Similarly, Fund staff views on eliminating or reducing EI benefits to seasonal employees, primarily in Eastern Canada, were dismissed for the negative regional implications. Fund staff views merging financial institutions were deemed limited. Similarly, Fund staff views on creating a national securities' advisor were limited by demarcated federal-provincial jurisdictions.

Improving 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 paper concludes with reviewing and proposing recommendations to improve the bilateral surveillance process for non-borrowing countries and with the implications of various reform proposals on both the Fund's organizational structure and the broader political-economy issues to be raised.

On the one hand, Fund Executive Directors and IMF Management have discussed downsizing the Article IV consultation of non-borrowing (with low risk of crisis) member states altogether. As Jacques Polak, former head of the IMF's Research Department for 22 years and current IMF insider, noted:

> The accepted doctrine in the Fund is that if its surveillance of the major economies is not effective, we should improve it. In my opinion, we should also contemplate the opposite reaction: curtail it. These countries don't need the IMF's advice. They get the same advice from all over the world, and they themselves know very well what needs to be done (quoted in IMF Survey, 2004a:249).

Polak's comments reflect the sentiment voiced by several Canadian Department of Finance staff that the Article IV consultations are less useful to non-borrowing countries- that there is little in the way of new ideas presented to the non-borrowing member state and that IMF policy advice does not change the government agenda- and should be significantly downsized. This could be done by increasing the interval between Article IV visits to 18 or 24 months.

Polak further adds, "Plus, IMF advice is expensive in terms of staff resources. Surveillance could be slimmed down to allow the IMF to shift more resources to other regions that badly need additional high-quality staff" (Polak quoted in *IMF Survey*, 2004a:249). Ironically, Fund staff resources are heavily tilted toward surveillance of non-borrowing countries at the expense of surveillance for borrowing members (See IMF 2004a:24). Furthermore, as noted in a number of personal interviews conducted with former Fund staff members, there is a staff preference to work in either the Western Hemisphere or European Departments, as opposed to working in more labour intensive, complicated, and intricate African, Middle East, and Asian Departments.[3] This has also meant that the strongest economists, in greater demand within the Fund, tend to work in the Area Departments with predominantly non-borrowing states. Shifting staff resources to the departments in greater need of Fund policy advice may be a useful way to reorganize and optimize Fund staff resources.

Another similar reform proposal involves shifting the Fund's focus into assessing crisis vulnerability, so that states are categorized as either in non-crisis situation, pre-crisis situation, or crisis situation (See Bryant, 2004: 75-80). The level and intensity of Fund surveillance and advice would increase with crisis vulnerability. Thus, Article IV consultations to non-borrowing countries categorized in a non-risk status would be scaled-down. To make this work, the Fund must some how objectively determine which member states belong in which category (Ibid). Not only are there difficulties in predicting states deemed at risk to crisis- case in point the IMF failure to predict the Asian crisis and more importantly, the Argentinian crisis despite that Argentina was under close Fund surveillance for 10 years- but, also the Fund risks signaling to financial market speculators.

Both downsizing reform proposals require a fundamental change in how the Fund has historically viewed itself and portrayed its activities as a technocratic institution that serves to treat its member states universally. The change in symbolism here is important, but not nearly as complicated as would be the required changes to the Articles of Agreement which mandate universal surveillance of all its members on a 12- month cycle. While an attractive option at first, downsizing Fund surveillance may not garner the support needed at the Executive Board to change the Articles of Agreement.

On the other hand, perhaps Fund surveillance could be improved by expanding its scope to make the process more of a *learning* experience offering *new ideas* wanted 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 not used in existing reports.

Second, IMF Article IV reports could be improved by adding cross-comparative analysis. It is useful to note that Department of Finance staff attributed Fund staff's comparative advantage to its access to cross-comparative information and yet the Fund does 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" (Ibid.).

Third, Fund staff could improve the delivery of their Article IV reports by making them more reader friendly. Canadian Department of Finance staff noted that they referred to OECD specific studies because the presentation and language of the reports were more user-friendly, especially the use of appropriate figures and graphs. The Canadian Finance staff are not alone in this complaint, according to the Fund's own internal evaluation of surveillance reports, it noted that 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 Survey*, 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. Instead, the Fund could 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 government 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 Fund staff's academic and theoretical policy advice does not always fit with the country's practical and political constraints being faced. 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 sensitivity to Fund staff skills set 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

International organization theorists employing learning models to explain state policy changes need to ask important questions about civil servants' perceived value of IO lesson plans. The presented case of Canada demonstrates that by asking questions on the perceived value and utility of IO teachers and their lesson plans, we can learn a lot about the constraints of IO advice. The Fund, in particular, is often viewed to be the torchbearer of a conservative macroeconomic ideology loosely coined the 'Washington Consensus' being disseminated to and adopted by the world's state finance ministries. Indeed, the case of Canada demonstrates that there is great respect for IMF staff's analysis and advice for its theoretical and academic models, but that there is a real disconnect between the policies prescribed and its 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.

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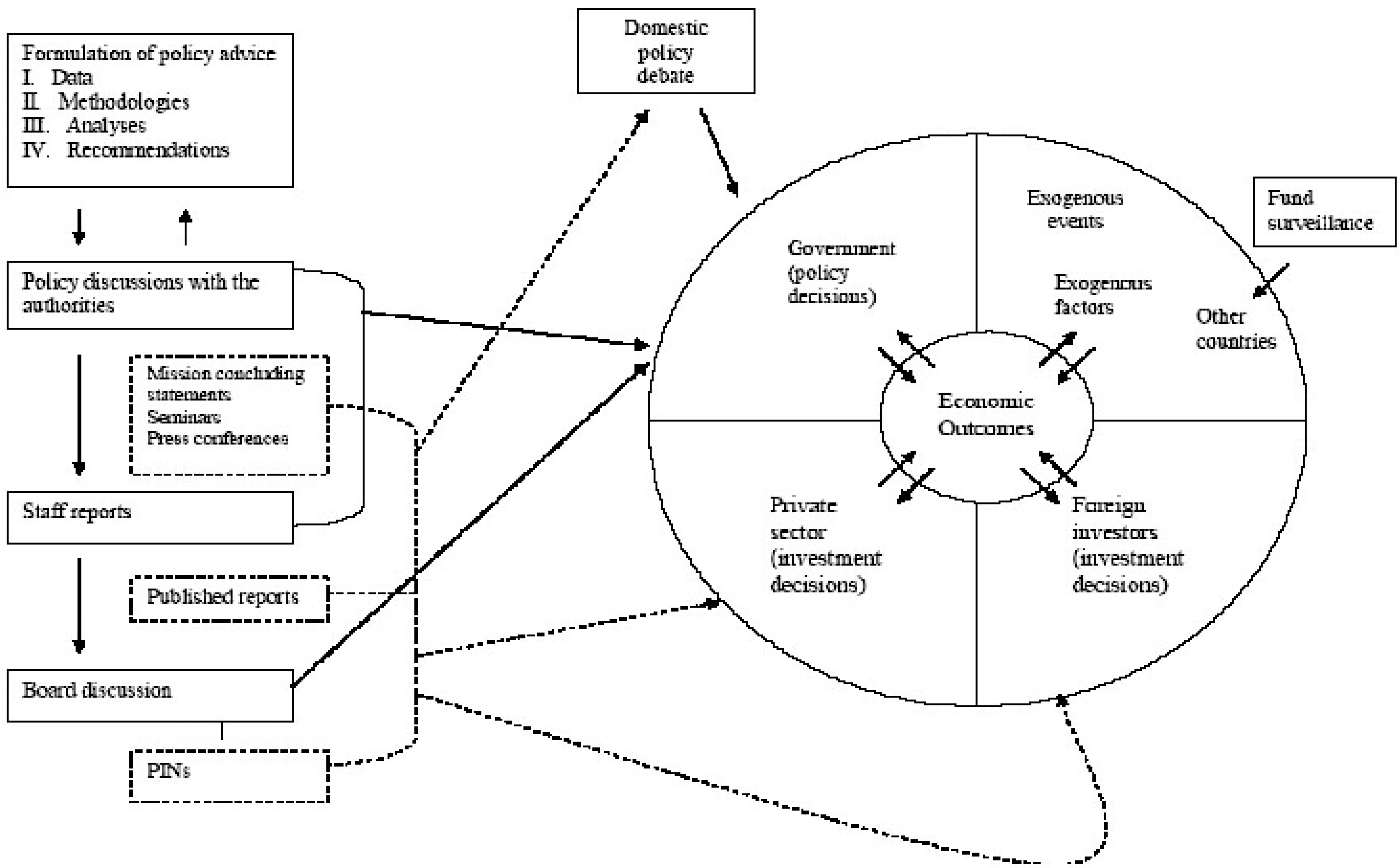
Endnotes:

1. Article IV Consultation meeting dates were as follows: 8- 15th November 1999; 8- 12th January 2001; 5- 9th November 2001; October-November 2002; 12-19 November 2003; and November-December 2004.

2. The remainder of this section refers to the Fund staff's Article IV Consultation reports for years 1999 through 2005.

3.Based on an interview with a former senior IMF staff member conducted in Toronto, Canada in February 2004 on Fund recruitment.

Figure 1: The Fund's Bilateral Surveillance Process



Source: IMF, 2004b:6