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Austerity Versus Stimulus? Understanding Fiscal Policy Change at the International Monetary Fund since the Great Recession

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Abstract

Since 2008 the IMF has become more open to the use of discretionary fiscal stimulus packages to deal with recessions, while changing its doctrine on the timing and content of fiscal consolidation. Rather than constitute a paradigm shift, these changes amounted only to a careful recalibration of its pre-crisis fiscal orthodoxy. The paper traces this evolution of the Fund's doctrine to staff politics, more diverse thinking in mainstream economics and a careful framing of the message through the use of mainstream macroeconomic models. The findings contribute to the emerging debate on the internal sources of intellectual and policy change in international economic organizations.

Keywords: IMF, fiscal policy, austerity, stimulus, Keynesian, epistemic networks

Introduction

The making of decisions about how states collect and spend money to influence the economy, is at the heart of democratic politics itself (Levi 1988; Blyth 2013). Yet for a very long time fiscal policy decisions have not been the sole domain of the domestic political sphere. Rather, sovereign bond markets and international economic organizations like the International Monetary Fund constrain domestic fiscal policy in significant ways (Mosley 2003; Woods 2006; Pop-Eleches 2009). This is particularly important during recessions, when policy makers are under pressure to help deliver improved growth and employment figures.

Although it was open about the use of automatic stabilizers where governments had fiscal space, for more than three decades preceding the Lehman Crisis, the IMF upheld the view that fiscal policy is not very useful in most countries and contexts (Heller 2002). Nevertheless, in 2008 the IMF surprised its critics by endorsing the use of a wider array of fiscal tools for a broader spectrum of countries to overcome the greatest crisis that capitalism had known since the Great Depression. When most European policymakers stated that austerity was not just necessary to lower debt, but could even lead to growth, the IMF begged to differ. The evolving views of the Fund on fiscal policy were also clear to emerging and developing economy policy elites surveyed by the Fund's Internal Evaluation Office. A common view among them was that "the IMF has tempered its emphasis on fiscal adjustment and is now more attuned to the social and economic development needs."[1] As one acerbic critic of the IMF put it, this unorthodox thinking was part of an "*interregnum* pregnant with development opportunities" (Grabel 2011).

While the IMF's shifting views on fiscal policy have baffled its critics and supporters alike, the depth, significance, and causes of the shift remain unexplored. The chapter argues that this interregnum has spawned a fiscal policy hybrid of pre-crisis neoliberalism and the more "Keynesian" overtures that the Lehman crisis brought.

To understand this "revisionist" doctrine it is important to look closer at intellectual debates inside the IMF. Indeed, while previous literature has treated the staff as a homogenous actor, the analysis presented here takes us down into the Fund's "engine rooms" to explore the work and career trajectories of economists who have been involved in crafting this hybrid. The chapter's focus is on the Fund's most influential policy and research milieus: the Fiscal Affairs Department (FAD) and the Research Department (RED). It is generally believed that the bi-annual IMF departmental reports such as the *World Economic Outlook* published by RED, and the *Global Fiscal Monitor* published by FAD, reflect the IMF's official views on fiscal policy.[2] Moreover, because both these departments have prolific and prestigious researchers who often occupy senior positions in the Fund, they are also ideal sites in which to study the role of economic ideas in policy change.

The chapter argues that a new managing director whose "Keynesian" beliefs[3] about fiscal policy were known before the Lehman crisis hired sympathetic interlocutors in the top management of RED and FAD. Against the background of growing intellectual diversity in academic macroeconomics, these high-ranking bureaucrats and researchers changed the Fund's fiscal policy doctrine by using their pulpits and their power to hire staff with supporting views and to cite the work of the new hires in the official reports of these

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[1] Internal Evaluation Office, "The Role of the IMF as Trusted Advisor," http://www.ieo-imf.org/ieo/pages/ieohome.aspx#

[2] Author interview with staff at the IMF Institute for Capacity Development, November 11, 2013; author interview with Joint Vienna Institute graduate and Romanian central banker, October 23, 2013.

[3] The paper uses inverted commas because the term "Keynesian" is very contested. Nevertheless, one can find arguments for fiscal policy activism, including for the use of discretionary fiscal stimulus packages in the three main schools of macroeconomic thought that claim Keynes' General Theory as foundational work: New Keynesians, neo-Keynesians and post-Keynesians. For an adequate conceptual clarification see Arestis (2011).

departments. To ensure the internal and external legitimacy of the revised doctrine, the staff research used to support the claims made in WEOs and GFMs was framed in the languages and calculative devices of mainstream macroeconomic models.

The analysis begins with a critical overview of the state of the art and introduces the analytical and methodological apparatus this chapter proposes. Next, it compares the fiscal policy status quo before 2008 with the official policy advice emanating from RED and FAD during and after the Lehman crisis. The rest of the chapter aims to explain the patterns of stability and change in fiscal policy the "before and after" comparison brings into relief.

The state of the art

A large portion of the literature that explains the policy positions of the Fund has focused on the preferences of IMF principals such as the U.S. (Thacker 1999; Pop-Eleches 2009; Babb 2008) or the G5 (Presbitero and Zazzaro 2012; Copelovitch 2010). Given this emphasis, one would expect the use of stimulus programs by principals like the US, the EU and Japan between late 2008 and mid 2010 to have supported a doctrinal shift at the Fund towards a more expansionary fiscal stance. Scholars who focus on the role of the U.S. might argue that partisan politics around fiscal policy during the Obama administration could account for the Fund's tortuous attempt to balance stimulating the economy and reassuring sovereign bond markets. This approach can also explain why some of the most dissident economic ideas advocated by Fund economists ended up in the dustbin. Germany, the most powerful European principal, for example, rejected the application of ideas such as higher inflation or more generous bailout terms.[4]

Nevertheless, the principal-agent approach does not tell us why and how the Fund advocated for a fiscal policy doctrine that was quite different from that of its European principals or, for that matter, of Congress Republicans. Where did these alternative fiscal policy ideas come from? How was it possible for them to get the blessing of the Fund's senior management in the first place? Such questions invite us inside the Fund's own policy-making process.

A growing scholarship has examined the internal sources of change in the IMF's policy doctrines and found that staff research plays an important role (Abdelal 2006; Copelovich 2010; Chwieroth 2007; 2008; 2013; Park and Vetterlein 2010; Momani 2010; Leiteritz and Moschella 2010; Moschella 2012; Clift and Tomilison 2012; Broome and Seabrooke 2007; 2012). This finding resonates with scholarship that shows international economic organizations to derive both legitimacy and authority from exercising scientific claims over the underpinnings of economic policy (Barnett and Finnemore 2004; Woods 2006; Chwieroth 2008; 2013; Broome and Seabrooke 2012). For some, internal change takes place when new senior management arrives and brings with them new economic ideas (Abdelal 2006). For others, however, change originates from insider ideational

[4] A Bundesbank memo leaked to the press even called the IMF the "Inflation Maximizing Fund." In the same year, Fund economists pushed for a more generous bail out of Greece, but were spurned by the EU. (See Jarad Vary, "How the IMF got its Keynesian groove Back," *New Republic*, December 2, 2011.)

entrepreneurs who seek change and to that effect enroll sympathetic interlocutors from the broader economic profession. For Jeffrey Chwieroth this strategic enrollment comes in the form of hiring new recruits from U.S.-based economics departments where graduate training socializes PhDs in entrepreneurial economic ideas (Chwieroth 2009).

These are path-breaking contributions, but the distinctive empirical reality of fiscal policy during the Great Recession invites further theoretical and methodological development that builds on these foundational insights. The state of the art focuses on situations when Fund staff initiated a change of the goals, instruments, and settings of policy—that is, a "paradigm shift" (Hall 1993). Fiscal policy during the Great Recession however falls short of a paradigmatic shift. The Fund did not experience the kind of generational change it experienced during the 1980s when postwar neo-Keynesians retired and made room for a generation of economists who had been shaped by the New Classical revolution of the 1970s. Furthermore, a paradigm shift in macroeconomics in the universities that supply the Fund with staff has not occurred. Finally, it is only as a result of the very recent boom in online professional information services such as *LinkedIn* that researchers can begin to study more systematically the political sociology of the staff via the accretion of biographical information about IMF economists and their collaborators.

Epistemic ecologies and the politics of doctrinal change at the IMF

To better understand the possibilities of ideational entrepreneurship in the Fund this chapter draws on the sociology of the economics profession and of science more generally. The main insight of this scholarship is that mobilizing large numbers of (legitimate) supporters is critical in scientific transformations; this is even truer in a field such as economics where the discipline's identity is invested in a scientific axiology. Indeed, some sociologists have suggested that we study economists not as dispassionate bearers of technoscientific knowledge, but rather as strategic political entrepreneurs (Latour 1987; Eyal and Bockman 2002). Like other experts making claims to scientific status, economists are motivated less by meritocratic competition than by the enlistment of other economists in their particular professional networks. As Bruno Latour puts it, in this strategic process of expansion "the rules are simple enough: weaken your enemies, paralyze those you cannot weaken, help your allies if attacked, ensure safe communication with those who supply you with indisputable instruments, oblige your enemies to fight one another" (Latour, 1987: 37).

While the possibility of exploring all the tactics of scientific struggle evoked by Latour is not within the ambit of this paper, one could at least find evidence of ideational entrepreneurs in senior management using their administrative power in the Fund's hierarchy to influence doctrinal debates. One of the effects of the hierarchical nature international organizations like the IMF (Woods 2006) is that senior management can use the authority conveyed by their positions to influence hiring and promotion decisions in order to increase the number of supporters for a particular economic doctrine. But since promotions follow set performance targets and seniority rules that cannot be overridden by fiat,[5] the only way in which senior management can use their administrative power to shape internal policy debates is through new hires. It is therefore possible to hypothesize that the rise and consolidation of the revisionist doctrine was subsequent or at least contemporaneous with the hiring of a significant number of new economists. Senior management can shape the direction of change through the power to cite, ignore, or reject staff research in WEOs and GFMs. Finally, department directors can highlight the work of junior staff by co-authoring papers with them and then citing the findings in the department reports.

Given the rigors of the Fund's commitment to a scientific culture (Barnett and Finnemore 2004; Chwieroth 2009; Seabrooke 2011), new ideas should be formulated using methodological languages that are widely accepted in epistemic ecologies inside and outside the Fund. The IMF's scientific legitimacy depends on the perceived scientific respectability of its policy advice so an intellectual opening in mainstream macroeconomics accompanied by methodological breakthroughs is an important asset for ideational entrepreneurs inside the Fund. Indeed, since the boundaries of contemporary macroeconomics are shaped as much by what is considered theoretically appropriate as by what passes for methodologically rigorous (Fourcade 2009) and the epistemic culture of the IMF is methodology-centric (Abdelal 2006; Chwieroth 2009), the struggle of building, defending, and legitimizing revisionism should take place on familiar methodological ground.

In addition to contributing these new theoretical developments, the paper proposes a new methodological algorithm to study doctrinal change at the Fund on a more systematic basis. First, to establish the extent of change the paper compares the Fund's pre-crisis fiscal orthodoxy with the Fund's statements from 2008-2013 in WEOs and GFMs.[6] Then, all arguments from IMF studies on fiscal policy (working papers, staff papers) cited in GFMs and WEOs were coded using two categories: revisionist and orthodox. The studies that reproduced the pre-2008 fiscal policy line were coded as "orthodox." Those that deviated from the pre-2008 fiscal policy line were coded as "revisionist." This enabled the production of visually suggestive descriptive statistics about the positions of IMF staff who authored IMF studies on fiscal policy. To find how important these voices were in the Fund, the chapter coded the professional trajectories of all these IMF authors and matched their positions on doctrine change to their hierarchical position in the Fund. Since some authors (co)authored revisionist papers on some topics of fiscal policy and orthodox ones on other topics, they were coded as "mixed." Interviews with staff at the IMF headquarters conducted in 2013 helped refine the findings by providing insight into the perceptions of the staff on select issues. The remaining gaps were covered through research on media sources.

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5 Author interview with FAD economist, January 2013.

6 While *World Economic Outlooks* can be found in the IMF archive as early as 1969, the *Global Fiscal Monitors* were published only starting in 2009.

Mapping out stability and change

In order to establish the post-crisis evolution of fiscal policy advice at the IMF this chapter analyzes a special issue of the *World Economic Outlook* from 1998 as well as the WEOs covering the three years in between the East Asia crisis and the recession triggered by the dotcom bust (1999-2001). The findings were then compared with an IMF internal review on the Fund's country advice (Heller 2002). Next, the chapter examined all WEOs and GFMs published between 2009 and 2013 and then checked the results against an internal IMF review article (Blanchard and Leigh 2013). The analysis was guided by four themes: the main goals of fiscal policy, the basic options for countries with fiscal/without fiscal space, the pace of fiscal consolidation, and the composition of fiscal stimulus and consolidation. The results differentiate between different categories of countries and are summarized in Table 1. The text in italics indicates post-crisis changes that capture the revisionist (rather than paradigmatic) transformation of fiscal policy doctrine. Overall, the table shows there to be no dichotomy between a pre-crisis "neoliberal" line and a "Keynesian" line, the former emphasizing balanced budgets at all times and the latter centered on counter-cyclical fiscal stimulus packages in the case of recession. Instead, before 2008 the Fund was already open to selective Keynesian insights such as automatic stabilizers and even discretionary spending. It is clear, however, that the applicability of these insights became significantly broader after 2008. Such broadening falls parallel with changes in advice about the timing and composition of fiscal consolidation that generally reduce a recession's pro-cyclical effects and spread the social costs more broadly than before. Although these findings do not necessarily point towards a paradigm shift, the apparent "edits" are quite extensive when compared with the pre-crisis doctrinal script.

TABLE 1: Pre- and Post-Crisis Themes in IMF Analyses

Pre-crisis	Post-crisis
The main goals of fiscal policy are growth and the reassurance of sovereign bond markets through credible fiscal sustainability policies.	The main goals of fiscal policy are growth and the reassurance of sovereign bond markets through credible fiscal sustainability policies.
Only high-income economies with fiscal space (stronger fiscal positions, lower public debt) should let automatic stabilizers operate in full, even at the cost of deficits.	*All economies* with fiscal space (stronger fiscal positions, public debt) should let automatic stabilizers operate in full, even at the cost of deficits. *Given the smaller increase in their debts, most developing countries are less likely than wealthy countries to experience substantial increases in debt service over the medium term as a result of their fiscal expansions.*

Only high-income countries with fiscal space but weak welfare states (US, Japan) should also use discretionary spending to stimulate the economy even at the cost of deficits. This spending should be directed at tax cuts.	*All economies* with fiscal space should also use discretionary spending to stimulate the economy even at the cost of deficits. This spending should be directed *at public investment in infrastructure and should avoid tax cuts.*
All expansionary measures should be accompanied by medium-term frameworks that reassure bond markets that debt and deficits will be cut after the recession ends. The credibility of these measures is supported by commitment to public debt thresholds, fiscal rules and expenditure ceilings.	All expansionary measures should be accompanied by medium-term frameworks meant to reassure bond markets that debt and deficits will be cut after the recession ends. The credibility of these measures is supported by commitment to public debt thresholds, fiscal rules and expenditure ceilings, *independent fiscal councils, financial transaction taxes, carbon taxes, higher taxes on wealth and the curbing of off-shore tax opportunities*.
Countries for whom fiscal consolidation is the only option should prefer spending cuts over revenue increases.	Countries for whom fiscal consolidation is the only option should *balance spending cuts and revenue increases. Fiscal consolidations based solely on spending cuts are less likely to be sustainable.*
The cuts should be targeted at public job programs, social transfers, public sector wages, employment, housing and agricultural subsidies. Public investments should not be adopted because they crowd out private investments.	The spending cuts should be targeted at public job programs, social transfers, public sector wages, employment, housing and agricultural subsidies. *Public investments should be prioritized, as they do not crowd out private investments in the conditions of the Great Recession.*
If fiscal consolidation is in order, it should always be introduced immediately (frontloading). Fiscal consolidation is likely to have expansionary effects on output.	If fiscal consolidation is in order, it should be introduced *gradually (backloading), unless the country faces collapse in confidence on sovereign bond markets.* Fiscal consolidation is *unlikely* to have expansionary effects on output.
The best tax policy package reduces marginal income taxes, expands the tax base, increases reliance on flat consumption taxes, enforces the	The best tax policy package reduces marginal income taxes, expands the tax base, enforces the neutrality of the tax system, *increases taxes on dividends and the estates*

neutrality of the tax system.	*of the wealthy, adopts financial transaction and environmental taxes, aggressively pursue off-shore wealth,*
Low-income countries for whom fiscal consolidation is the only option should prefer revenue increases over spending cuts, particularly cuts of health and education outlays.	Low-income countries for whom fiscal consolidation is the only option should prefer revenue increases over spending cuts, particularly cuts of health and education outlays.

These are important revisions but their depth and span varies over time. There was a great deal of fiscal policy optimism in 2008 and 2009, but by 2010 the tone changed in favor of an earlier exit from stimulus. The 2010 GFM report applauds the unwinding of the discretionary stimulus in all countries with fiscal space and turn to consolidation. Yet the 2010 report also reflects support for continued stimulus in fast-growing emerging markets with excessive external surpluses and low debt. The bumper sticker is: "a down payment on consolidation now with continued gradual tightening over the medium term" (GFM 2010). This advice is based on optimistic projections that consolidation has a low and subunitary fiscal multiplier and on the assumption that medium and long-term fiscal measures are not sufficient to reassure markets. Nevertheless, the departmental reports leave the door open to expansion in wealthy countries with fiscal space, should economic activity fall short of WEO projections. The reports also caution against an "abrupt fiscal withdrawal" (a cut in the deficit greater than 1 percent a year) and state that the output cost of a 1 percent of GDP fiscal consolidation can double to 2 percent for a small open economy where the interest rate is at the zero lower bound and consolidation is done by almost all countries at the same time.

In 2011 the reports swing to a more orthodox line. The IMF documents praise Europe's strong frontloading of austerity and make optimistic projections of its effects on credibility. Moreover, based on a FAD study showing that bond yields in emerging markets are very sensitive to global risk aversion, they counseled for low and middle-income economies to rebuild fiscal buffers and cut spending despite the fact that they were facing less market pressure than developed countries. The report contains an unambiguous denunciation of the expansionary austerity thesis.

Subsequent reports qualify this doctrinal retrenchment. The 2012 GFM and WEOs acknowledge that fiscal multipliers of consolidation were much larger than the Fund realized and therefore advised slower adjustment in countries with low credibility. The reports also stress the importance of expansion in countries with credibility and formulate a more poignant critique of the harsh spending cuts in the U.S. and Europe. Critically, both reports warn that austerity could be self-defeating as its negative effects on output have already increased public debt in countries that implemented the most aggressive spending cuts. Also in 2012 and 2013 in the GFMs and WEOs emerge call for tax reforms that shift some of the burden of consolidation onto the wealthy.

Explaining stability and change

Winds of change in mainstream macro

When the Great Recession began any IMF searching for literature that endorses bold thinking on fiscal policy would not have been completely frustrated. While it is true that the crisis has triggered no paradigm shift in mainstream economics, as in the 1930s or the 1970s (Blyth 2013; Mirowski 2013), it is also fair to say that the macroeconomic mainstream that formed the so-called "New Neoclassical Synthesis" had become accustomed to some degree of intellectual diversity on fiscal policy (Hein and Stockhammer 2010; Arestis 2011; Mankiw 2006). In general, mainstream economists saw monetary policy as the main counter-cyclical response to recessions. But a few high-profile scholars situated on the New Keynesian left of the New Neoclassical Synthesis had demonstrated that under certain conditions (near zero interest rates, microeconomic disruptions), fiscal policy can have expansionary effects on output during recessions (Fatas and Mihov 2001; Blanchard and Perotti 2002; Gali et al 2007).

The onset of the Great Recession reenergized this debate (Batini, Callegari, and Melina 2012; Blanchard and Leigh 2013). By early 2009, clashes over the effectiveness of fiscal policy and the value of the fiscal multiplier were front and center in the *American Economic Review* and other leading journals. But unlike in the pre-2008 period, the pro-stimulus camp appeared a lot stronger. Berkeley economist and U.S. President Obama's economic advisor Christina Romer inflamed the hostilities in a co-authored study that suggested fiscal multipliers from stimulus in the US to be around 1.5, a far cry from the subunitary or even negative multipliers found in the mainstream. Her findings suggested that a large fiscal stimulus was the responsible fiscal policy to pursue (Romer and Bernstein 2009). Subsequently a string of supportive studies followed, with Berkeley, Northwestern and MIT leading the charge.

The defenders of the status quo reached soon afterwards. In 2009 however a joint U.S.-German research team reported very low negative multipliers thus rejecting the pro-stimulus research (Cogan et al 2009). Again, other studies followed suit. Yet over time, the voice of the revisionists began to dominate in the top journals and was supported by some of the most established and innovative voices in macroeconomics (Ban 2014).[7] There was, then, plenty of reputable economics research produced at the pinnacle of academia for IMF intellectual entrepreneurs to draw upon. But, in a complex organization like the Fund, doctrinal change takes more than a wind of change in academic macro.

Staff politics, hierarchies and the editing of the doctrinal status quo

Rawi Abdelal (2006) demonstrated that the IMF's advocacy of capital account liberalization, a policy one would normally attribute to Wall Street or Washington, originated in the policy entrepreneurship of international civil servants steeped in the

[7] For an overview of this debate see Batini et al (2012) and Blanchard and Leigh (2013).

political habitat of French politics and technocracy. The same professional habitat proved to be critical in facilitating a significant recalibration of fiscal policy advice at the IMF.

The onset of the Global Financial Crisis and the ensuing Great Recession coincided with important changes at the top of the IMF's bureaucratic pyramid. Critically, there was a new managing director who hired a new chief economist and a new director of the Research Department.

There was little in the professional history of the newly anointed managing director Dominique Strauss-Kahn (DSK) that would suggest substantial commitment to a "Keynesian" drift in fiscal policy. His past as a technocrat for the Socialist government of Lionel Jospin (1997-2001) predicted instead that he would be an enforcer of the fiscal orthodoxy embedded in the constitutional norms of the European monetary union (Bell 2003). DSK was also known in the French Socialist Party as a politician closer to the fiscal rigueur of the Third Way (Bantigny 2012; 2013). But during the late 2000s his thinking evolved and seven months before Lehman unleashed the havoc of the Great Recession, DSK stunned the participants at the World Economic Forum in Davos (Switzerland) by calling for "a new fiscal policy [as]…an accurate way to answer the crisis," a position he reiterated in his speeches throughout 2008 and 2009. [8] The *Financial Times* saw in the speech the sign of "the undeniable shift to Keynes."[9]

DSK reaffirmed this position at the G20 summit in Madrid in November 2008 and called on the participants to launch a coordinated fiscal stimulus to the tune of two percent of global GDP. Gone was the IMF's traditional reservation that developing countries should abstain from stimulus. DSK now stressed that " anyone with the most clearly sustainable debt should take the lead."[10] A skilled politician,[11] he ironed out a consensus around a coordinated stimulus and when countries announced much weaker measures than he expected he warned that the IMF's forecast for 2009, "already very dark…will be even darker if not enough fiscal stimulus is implemented".[12] The managing director then chastised the EU, indicating that the size of the stimulus there (1.5 percent) was too low.[13]

The political skill and a technocratic record of the managing director were important, but

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[8] "Making the Most of an Historic Opportunity: Three Principles for Reshaping the Global Economic and Financial Framework Istanbul," Çırağan Palace, October 2, 2009

[9] Chris Giles, Ralph Atkins and Krishna Guha. "The undeniable shift to Keynes". Financial Times. Retrieved 2009-01-23

[10] "IMF Managing Director Dominique Strauss-Kahn Calls G-20 Action Plan Significant Step toward Stronger International Cooperation," IMF Press Release No. 08/286, November 15, 2008.

[11] According to Jack Boorman, a former special adviser to the IMF managing director, DSK was "a brilliantly gifted politician and a very good economist" and "that allowed him to insert himself into the G20 process in November 2008. He seized the moment in a brilliant fashion. Any decisions that were going to be taken, the IMF was moved right into the center of them," see

[12] Statement for Reuters, "IMF head worried about lack of fiscal stimulus," December 22, 2008.

[13] Interview with DSK in *L'Expansion,* December 17, 2008.

much of the Fund's authority comes from its scientific credibility as an epistemic ecology of economists with complex research and policy skills. DSK's opinions needed the imprimatur of this community. To this end, soon after his Davos speech, DSK worked to secure the appointment of Frenchman Olivier Blanchard as chief economist of the Fund and director of the Research Department beginning in September 2008. DSK and Blanchard knew each other from the small circles of French politics and technocracy where both carried a great deal of professional prestige. An academic celebrity at MIT, Blanchard was known for prolific, innovative, and diverse contributions to economics. It was one particular contribution that would prove to be critical after 2008 however. In a co-authored study written six years before Lehman (Blanchard and Perotti 2002), the MIT scholar defended counter-cyclical fiscal policy by using one of the most advanced mainstream macroeconomic models around, thus challenging the professional mainstream that had long ceased to take fiscal activism seriously. Soon after his appointment to the IMF Blanchard advocated for a large fiscal stimulus totaling two percent of global GDP. His justification was articulated in textbook Keynesian terms:

> In normal times, the Fund would indeed be recommending to many countries that they reduce their budget deficit and their public debt. But these are not normal times, and the balance of risks today is very different. If no fiscal stimulus is implemented, then demand may continue to fall. And with it, we may see some of the vicious cycles we have seen in the past: deflation and liquidity traps, expectations becoming more and more pessimistic and, as a result, a deeper and deeper recession. If, instead, a fiscal stimulus is implemented but proves unnecessary, the risk is that the economy recovers too fast. Surely, this risk is easier to control than the risk of an ever deepening recession. I would put it even more starkly. What is needed is not only a fiscal stimulus now but a commitment by governments that they will follow whatever policies it takes to avoid a repeat of a Great Depression scenario. If they do so, the fear that people and firms have today will fade, and demand will pick up.[14]

It was also in September 2008 that Carlo Cottarelli took over the IMF's influential Fiscal Affairs Department. Unlike Blanchard, Cotarelli was a career IMF economist whose research published before 2008 did not engage the macroeconomic fiscal multiplier debate. Nevertheless, Cotarelli's publications in late 2008 signaled he was on board with DSK and Blanchard (Spilimbergo, Symansky, Blanchard, and Cottarelli 2008). Finally, in the autumn of the same year Nicolas Eizaguirre, a Chilean left-leaning technocrat strongly supportive of a fiscal stimulus, became the director of the Western Hemisphere Department, a department that had been at the forefront of macroeconomic policy change in the 1980s. With a phalanx of senior staff at his side, DSK could facilitate an internal intellectual transformation that could lend scientific pedigree to a new fiscal policy stance at the Fund.

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[14] Interview with Olivier Blanchard, *IMF Survey Online*, December 29, 2008.

The defining moment of the new balance of epistemic power was the publication on December 29, 2008 of a joint RED-FAD staff position paper (Spilimbergo, Symansky, Blanchard, and Cottarelli 2008). The paper was co-authored by Blanchard and Cotarelli among others and laid down the groundwork for macroeconomic policy during recessions: "[a] timely, large, lasting, diversified, and sustainable fiscal stimulus that is coordinated across countries with a commitment to do more if the crisis deepens" (Spilimbergo et al. 2008, 2).

Its reasoning went as follows: given the collapse in private demand, states should not only let automatic stabilizes run, but also ramp up public investments and expand the reach of income transfers to those who were more likely to spend (the unemployed and poor households). Against the Fund's pre-2008 policy line, the authors stressed the role of public investments and downplayed the expansionary virtues of tax cuts. To this end they deployed the Keynesian argument that tax cuts are more likely to be saved. The authors also dismissed once-fashionable IMF policy advice such as exclusive reliance on activist monetary policy and export-led recovery. They also spurned as irrelevant the well-worn orthodox objection that spending increases have long lags. Given the Fund's mission to ensure relative stability in the sovereign bond market, there were also big caveats. The paper stressed that only countries with fiscal space could afford a stimulus and that expansionary measures should be reversible. Expansionary measures should also be announced in parallel with measures that ensure fiscal sustainability such as permanent cuts in healthcare and pension budgets in the medium and long term.

Such changes had far-reaching consequences. When the official fiscal policy pronouncements of RED and FAD came up in 2009 and 2010 evidence of the origins of doctrinal change and continuity in staff research was there for all to see. In 2009, WEO uses staff research to call for a fiscal stimulus (Spilimbergo et al 2008; Decressin and Laxton 2009; Clinton, Johnson, Kamenik, and Laxton 2009; Cihak, Fonteyne, Harjes, Stavrev, and Nier 2009). The GFM does too and adds that in the context of the lower tax collection rates in a crisis-ridden environment, governments should strengthen tax institutions rather than cut taxes (Brondolo 2009). The report also renounces the claim that policies that make income taxes more progressive lead to a decline in revenues (Baunsgaard and Simansky 2009).

In 2010, the year of the turn to austerity in Europe, a more qualified endorsement of fiscal stimulus is apparent. WEO cites studies warning of high debt and deficits' negative effects on output and market credibility (Baldacci and Kumar 2010; Kumar and Woo 2010), while the GFM reiterates arguments against extensive debt restructuring. Yet most of the cited studies contain anti-austerity implications. WEO asks countries to refrain from frontloading consolidation based on IMF research that finds high risks of deflation (Decressin and Laxton 2009). The studies cited in GFM find that beyond a certain threshold of adjustment spending cuts are no longer effective (Baldacci and Gupta 2010; Blanchard and Cotarelli 2010). Critically, WEO debunks an iconic study of the austerity camp (Alesina and Perotti 1997) and uses Blanchard's 2002 methodological innovations to show that fiscal stimulus packages have higher multipliers than consolidation and that the latter is contractionary and increases unemployment during recessions (Freedman et al 2009; Clinton et al 2010). The 2010 GFM's citations echo the December 28, 2008 paper (Spilimbergo et al 2008) and suggest that financial transaction taxes are an appropriate contribution to the fiscal sustainability effort (Keen et al 2010).

The 2011 WEOs and GFMs cite IMF studies that try to balance austerity and stimulus while starting a discussion about how the costs of consolidation should be distributed. The WEO critiques existing medium-term adjustment plans for vagueness and renders them consequently incredible (Bornhorst, Budina, Callegari, ElGanainy, Gomez Sirera, Lemgruber, Schaechter, and Shin 2010). The 2011 report at the same time endorses front-loaded fiscal consolidation on the spending side in Southern Europe and Ireland (Bornhorst et al 2010). But other cites are less hawkish. The report cites research that stresses the importance of current account deficit reduction in debtor countries and expansion in surplus countries (Blanchard and Milesi-Feretti 2009; 2011; Lane and Milesi-Feretti). It also warns that countercyclical budget rules are better for fiscal sustainability than balanced budgets (Kumhof and Laxton 2009). The report is also ambivalent about the effects of fiscal consolidation on reducing the external deficit (Clinton et al 2010). The studies cited by GFM emphasize the importance of pairing fiscal consolidation and structural reforms (Allard and Everaert 2010) and warn about the fiscal risks of declining credit ratings (Jaramillo 2011; Jaramillo and Tejada 2011). WEO inveighs-yet again- against the expansionary austerity thesis of Alberto Alesina and colleagues at the time his followers were shaping fiscal policy in Europe (Blyth 2013). The 2011 WEO finally endorses IMF research that calls for a more progressive distribution of income and reproduces research that indicates that financialization boosts inequality and inequality contributes to unsustainable growth trends such as those that predated the Great Recession (Berg and Ostry 2011).

While still alert to sustainability issues, the 2012 report indicates an interest in IMF studies that warn about the risk of self-defeating austerity. One of the studies cited in WEO deplores growing inequality and unemployment and layers demands for more income redistribution on top of old IMF recipes (retraining, better education, increase productivity in the service sector) as the price that may be needed to avert a protectionist backlash (Dao and Loungani 2010). The emphasis on the inequality-unsustainable growth nexus is reaffirmed (Berg and Ostry 2011) and the cited studies go beyond conventional recipes to endorse more redistribution and to boost aggregate demand in the short term to help labor markets recover (Ball, Leigh, and Loungani 2011).

Most importantly, although more research warns about the importance of medium-term fiscal frameworks for keeping debt in check (Berg and Ostry 2011; Kumar and Woo 2012), there is a resolute turn against frontloaded austerity in the 2012 WEO. There are warnings about the risk of deflation (Decressin and Laxton 2009) but what is particularly striking is that two new lines of attack appear. The most important is the finding that since 2008 the economic slack was so large, the interest rates so low, and fiscal adjustment so synchronized that fiscal multipliers were constantly well over 1.

This finding implies that the IMF underestimated the negative effects austerity had on output because it assumed values of the fiscal multiplier that were too low (Batini et al 2012). This concern is echoed in IMF studies cited in the year's GFM (Baum, Poplawski-Ribeiro, and Webel 2012). Second, even as another cited study encouraged spending cuts in health, pensions and public employment in wealthy countries like Italy, its findings also stressed that fiscal consolidation had been ultimately self-defeating in the past because it increased public debt levels (Ball et al 2011). The same finding is echoed in studies cited in GFM that argue that consolidation when the multiplier is high erodes some of the gains in market credibility as a result of a higher debt ratio and lower short-term growth, which causes an increase borrowing costs (Cotarelli et al 2011; 2012).

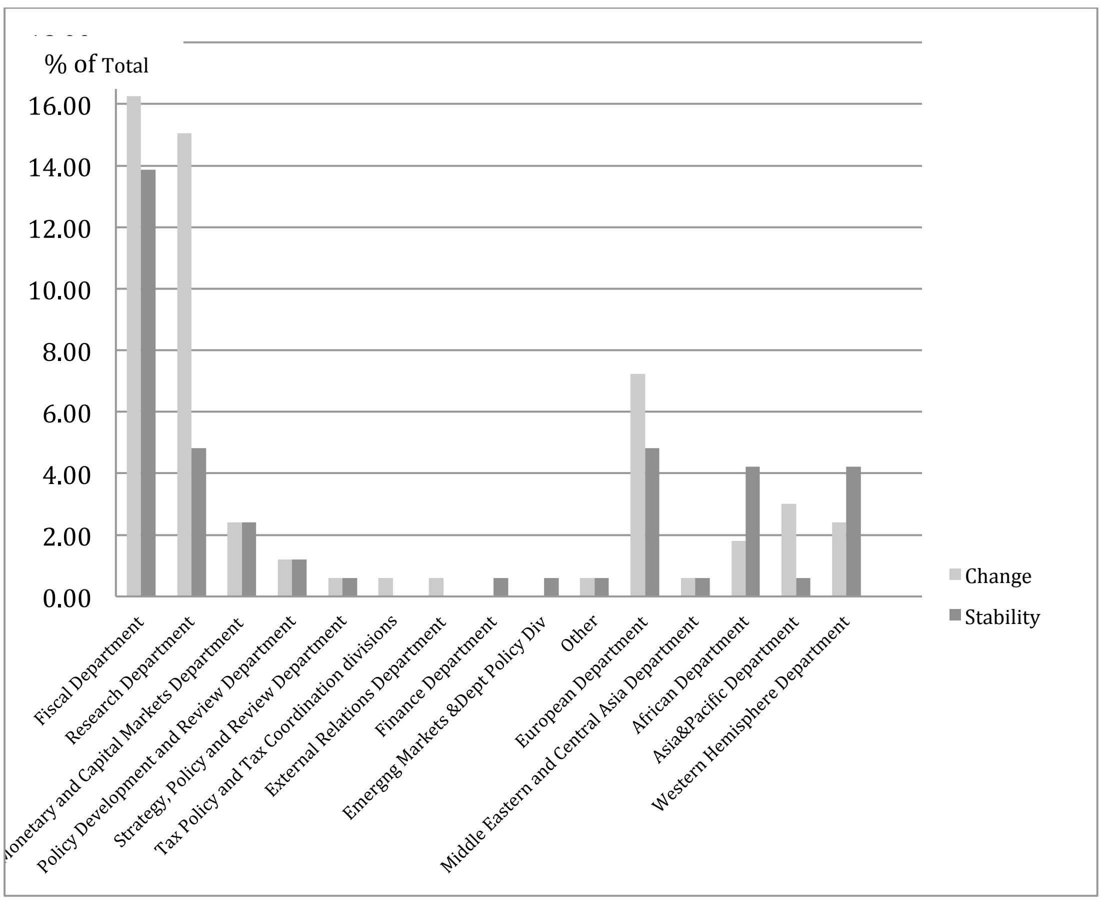
IMF research cited in the 2013 reports makes similar points but unprecedentedly emphasizes raising more revenue via more taxation of the wealthy. In WEO, deflation warnings from a 2002 paper are sounded yet again (Decressin and Laxton 2009) and the need for stimulus in countries that enjoy fiscal space is reaffirmed (Blanchard and Leigh 2013; Spilimbergo et al 2008; Kang et al 2013; Ostry and Ghosh 2013). Such ideas co-habit in the report with warnings about the growth-depleting effects of high debt (Kumar and Woo 2010). The GFM struggles to achieve a similar balance. It cites studies that establish the ineffectiveness of default (Das, Papaioannou, Gregorian and Maziad 2012; Borensztein and Panizza 2009) and inflation (Akitoby, Komatsuzaki, and Blinder 2013) as debt reduction strategies while stressing the importance of reducing debt. At the same time, the GFM cites studies that seem to represent a new taxation philosophy at the Fund. They continue to endorse a few old recipes (the reduction of income taxes while increasing consumption, the scrapping of loopholes in personal and corporate income tax, the elimination of differential VAT rates, resistance to high marginal income tax, reduced employers' social contributions) yet also advocate greater reliance on taxes targeted at the wealthy: property taxes targeted at the top 1 percent (a measure estimated to raise between 2-3 percent of the global GDP in new tax revenue), financial transactions tax, and a coordinated taxation of offshore incomes (Torres 2013; Acosta and Yoo 2012; Norregaard 2013).

Are there any patterns in the profile of the economists involved in this doctrinal transformation? To address this question the findings of the textual analysis are connected to the professional trajectories of the individual authors using three coding categories: *orthodox* (authors defending some aspect of the pre-2008 status quo), *revisionist* (authors proposing a significant change) and, in between the first two, the *mixed* group (authors making revisionist arguments in some studies and orthodox arguments in others). To better compare the forces of change with the forces of stability, the descriptive statistics contain a fourth category that merges the revisionist and mixed groups because both showed various degrees of willingness to depart from orthodoxy and engineer the Fund's own doctrinal *perestroika*. To present a the results of the before and after comparison in a legible way, the orthodox positions were then relabeled "stability" and the fourth category as "change."

In total, the paper examined the biographies and the work of 144 economists who authored studies cited in WEOs and GFMs. Of these, 84 (58 percent) supported some kind of doctrinal change and 60 (41) defended stability. In the "change" group, 11 were based outside the Fund and 8 were visiting scholars. In the doctrinal "stability" group only one was a visiting scholar and 5 were based outside the Fund.

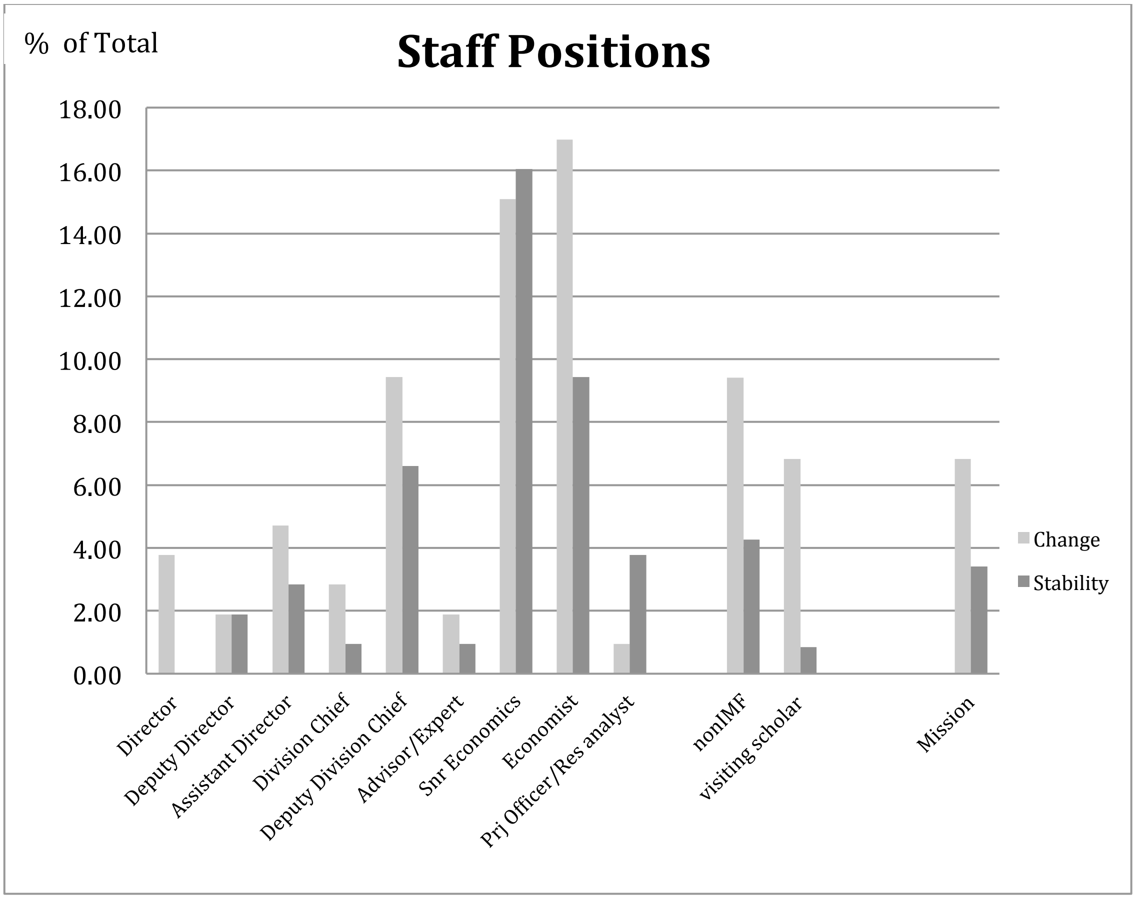
Several detailed findings emerge. First, figure 1 shows that most of the participants in the fiscal policy debate were from the RED and FAD, followed by the European Department. The percentage of economists doing mixed research was significantly higher than that of orthodox researchers in both RED and FAD. When the mixed group is disaggregated, it becomes clear that the resistance of the orthodox was a lot stronger in FAD and that RED was truly the professional ecology where the boldest advocates of change (the revisionist) dominated.

FIGURE 1: Group distribution by department (out of N=144)



Second, the top of the bureaucratic pyramid as well as its base came heavily on the side of change. As Figure 2 shows, department directors supported change and economists in entry-level positions and visiting fellows were overwhelmingly in the group with "pure" revisionist papers. It was only among assistant directors and senior economists that the percentage of orthodox (co)authors was as high as that of economists willing to stick to a strict orthodox line.

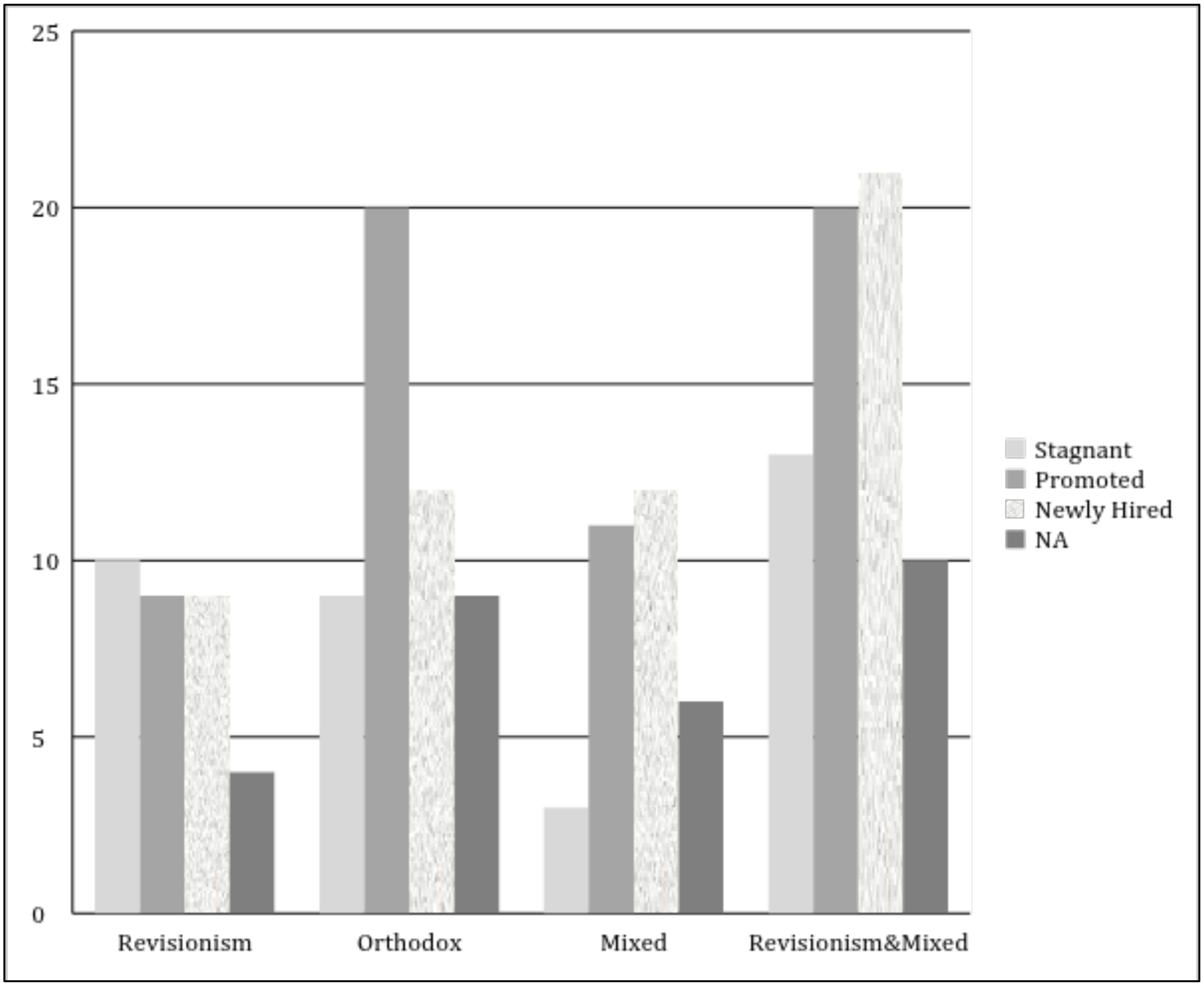
FIGURE 2: Group distribution by position (out of N=144)



Third, while senior management did not use promotion as a tool to remake the playing field to favor the forces of change, they nevertheless did not hesitate to use their power to shape the hiring of "young Turks" ready to do research that contributed to doctrinal change. Below follows a systematic analysis of the CVs of the IMF staff from the revisionist, orthodox, and mixed groups through a look at whether they were promoted, newly hired, or experienced no change in their career in the 2007-2013 period. An IMF economist was considered promoted if (s)he moved higher on the pay scale[15] or from a regional department to departments with higher status like FAD or RED. The label "new hire" was applied to all economists who joined the Fund after 2007. The results (Figure 3) show a pattern in line with the hypothesis. While the number of economists who were promoted was equal between the pro-change and pro-stability camps, the new hires joined the former in much greater numbers than the latter.

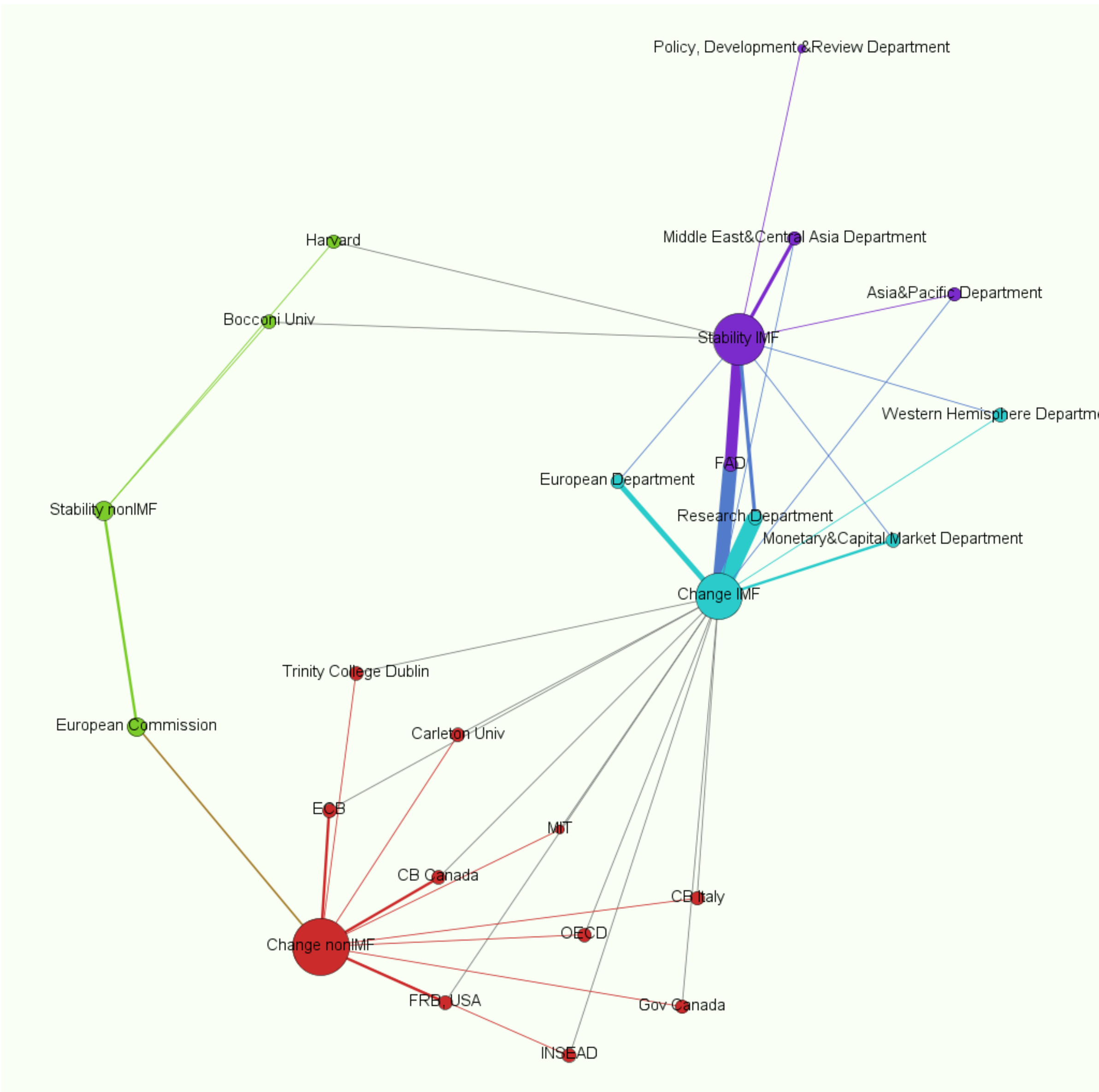
[15] The IMF's staff hierarchy can be found at www.**imf**.org/external/.../webtable54.pdf

FIGURE 3: Group distribution by career dynamics (2007-2013)



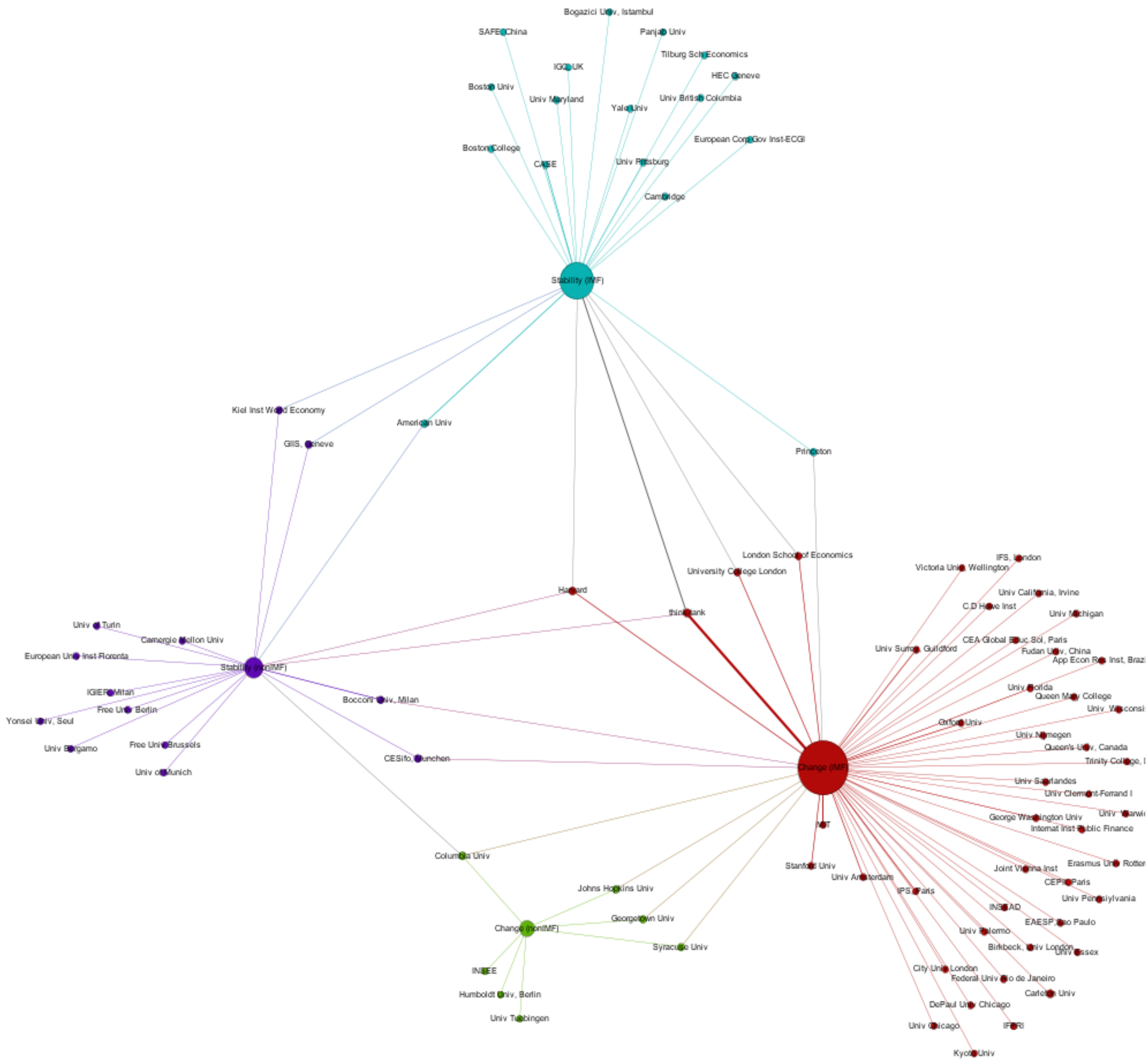
In closing this part of the analysis, the chapter carries out a merger between content and network analysis in order to visualizes the institutions that supplied the Fund with proponents for fiscal policy change or stability. The analysis processes 144 biographies of economists based in or contracted by the Fund to write on the austerity-stimulus debate between 2007 and 2013. The results show that the proponents for changing the IMF's fiscal policy orthodoxy in a more "Keynesian" direction came largely from inside the Fund and specifically from the Research Department, with a few European and North-American central bank economists as well as MIT academics in supporting roles. A large part of the Fund's most influential department (Fiscal Affairs) was divided and its pro-austerity supporters in academia came from Harvard and Bocconi University. The European Commission supplied the IMF with a community of experts who were split between stability and change.

FIGURE 4: Proponents of stability and change inside and outside the IMF



As for the academic background of the authors, the network analysis below presents a few findings that challenge the findings of much of the existing literature on the IMF that the IMF staff who do policy relevant work got their Phd degrees at elite US institutions. Clearly, the evidence suggests that the academic profile of both pro-change and pro-stability camps is a lot more diverse. MIT and Stanford are in the inner circle of the pro-change camp, but so are Amsterdam, IIPS Paris and Surrey. Researchers trained in continental European economics departments dominate the pro-change camp and educational promiscuity reigns in the pro-stability camp as well. Certainly when it comes to the fiscal policy debate, the Fund's internal epistemic struggles were not a sideshow to some Ivy League rivalries. In fact, staff with degrees from the usual suspects (LSE, Harvard, Princeton, Columbia) supplied both advocates for change and for stability.

FIGURE 5: PhD granting institutions of the authors of IMF research on fiscal policy



Framing with macroeconomic models

In the broader context of mainstream macroeconomics, IMF economists pride themselves of being good citizens. Virtually all the revisionist research was expressed using widely accepted macroeconomic models and by focusing on the methodological tools that calculate the value of fiscal multipliers. In October 2008, before Blanchard could establish himself properly as RED director, the Fund's WEO publicly stated that the fiscal multiplier of expansions was negative, a restatement of the New Classical argument about the self-defeating effects of fiscal expansions. But only two months later some of the Fund's top researchers and officials declared that the output shock was so unusual, that monetary policy was so powerless, and that deleveraging was so abrupt that fiscal multipliers were likely to be much higher (Spilimbergo et al 2008). In 2009 Fund research concluded that multipliers were greater than one in developed countries and less than one (yet positive) in middle-income and low-income countries (Spilimbergo, Symansky, Blanchard, and Cottarelli 2009). The 2009 WEO and GFMs quickly integrated such insights.

Nevertheless, it was not until 2010 that IMF staff began to churn out studies cited in GFMs and WEOs that showed high positive multipliers. The implication was that fiscal policy is genuinely expansionary and that mild and backloaded austerity packages would have fewer contractionary effects than sharp and frontloaded ones (IMF 2010; Ball et al 2011; Guajardo et al 2011; Baum et al 2012; Erceg and Linde 2012; Batini and Melina 2012; Blanchard and Leigh 2013).

Methodological innovations in academia and the Fund facilitated this overwhelming support for high multipliers. Within academia, the struggle between fiscal pessimists and optimists took place on the same methodological terrain: structural vector autoregressions (SVARs) and dynamic stochastic general equilibrium (DGSE).[16] Moreover, while studies done early in the crisis used models that did not allow multipliers to vary between expansion and recession, and failed to capture the lack of monetary policy space when interest rates are close to 0, subsequent recalibrations carried out after 2009 fixed the problem (for an overview see Auerbach and Gorodnichenko 2012). Within months, a team of IMF economists built on these methodological improvements and found consistently positive multipliers in recessions (Batini et al 2012). Finally, the importance of the methodological innovations became crystallized when some IMF economists who found high multipliers stressed that their results were broadly consistent with the entire theoretical spectrum, from (old) Keynesianism to the neoclassical purism of (new) modern business cycle models (Leeper et al 2010; Batini et al 2012).

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[16] For a detailed explanation of these models see Auerbach (2012). Interestingly, Olivier Blanchard had used SVAR in his foundational 2001 study on multipliers.

Conclusions

The "*interregnum* pregnant with development opportunities" the Global Financial Crisis and the ensuing Great Recession brought along has not led to a "Berlin Wall" moment for the IMF's doctrine on fiscal policy. Instead, the Fund made adaptive changes to its pre-crisis policy status quo that enabled the organization to weather the drama. Unsurprisingly, an older emphasis on maintaining states' credibility with financial markets remained the primary goal of policy. However, this goal now had to cohabit with greater acceptance of discretionary fiscal stimulus programs and an emphasis on *gradual* fiscal consolidation where fiscal space for stimulus was limited. Also, unlike the pre-2008 period, the IMF now advocates more balance between revenue and spending measures in the approach to fiscal consolidation.

To explain this revision of official fiscal policy doctrine, the paper focuses on the intellectual dynamics of academic macroeconomics, staff politics, external support, and framing tactics. Given the relatively tight epistemic interconnectedness between IMF researchers and mainstream academic economists, the long-run debate over the value of fiscal multipliers was eventually internalized in the *World Economic Outlook*, the *Global Fiscal Monitor,* and in the IMF studies these departmental reports referenced. The evidence suggests that critical to internalization of the more "Keynesian" arguments has been change at the managing and department director levels. Also critical has been the recent hiring of many new economists whose research suggested doctrinal change. To strengthen their ideational offensive, the advocates of change formed external epistemic networks with academics, central bankers, government technocracies, and economists located in private finance and think-tanks. To reduce the professional costs of their epistemic struggle, these ideational entrepreneurs wrapped their work in the methodologically inoffensive cocoon of generally accepted macroeconomic models. In terms of its academic background, this debate was shaped not by a few elite US economic departments, but by a more heterogenous set of PhD profiles, with non-elite and continental European universities playing a much more important role than conventional wisdom assigns to them.

Some may read the Fund's fiscal revisionism as an opportunistic, experimental, and perhaps reversible intellectual contradiction meant to reprogram the instruments and settings of neoliberalism for the political and economic characteristics of the Great Recession and its aftermath. But on the other hand, one should not dismiss *a priori* the possibility that the adaptive incremental change noted in this paper will morph into a transformative one, or, more ambitiously, into a paradigm shift. This paper suggests that doctrinal change may be difficult but not altogether improbable if all enabling conditions are present. To achieve more systemic forms of doctrinal change than the one analyzed here, future research could perhaps begin by comparing the story of the Great Recession told here with the Fund's deeper doctrinal change after the Long Recession of the 1970s.

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