A Look inside the Fund

Liaquat Ahamed

Money and Tough Love
On Tour with the IMF

In *Money and Tough Love*, Liaquat Ahamed describes the professional lives of IMF economists and their international tribe, while also providing a potted history of its founding and development. It's a challenging task because the sensitivity of the IMF's work skewed the institution toward discretion.

*Money and Tough Love* makes the IMF and its work comprehensible and accessible by profiling the quotidian activities and culture of its foot soldiers. Rather than stretching to draw drama out of the days of spreadsheet-wielding policy wonks, Ahamed explains how IMF staff members quietly contribute to the creation of a critical global public good.

In pulling back the veil on life on 19th Street, Ahamed eschews breathless fly-on-the-wall accounts of the financial crisis and fawning profiles of senior management. And as an outsider, he mercifully avoids the ersatz reconstructed conversations and false omniscience of battle-hardened memoirs. His book is less *Stress Test* and more macro-economic *Coming of Age in Samoa*.

Drawing on visits to headquarters and travel with IMF staff during late 2012, Ahamed's project is timely. After the IMF was written off in 2007 as nearly irrelevant by those who thought we had seen the end of financial crises, it came roaring back to global center stage after Lehman Brothers collapsed in 2008. Since then, it has been in the headlines on a nearly daily basis in its 70th birthday year.

Increased exposure hasn't brought with it greater understanding of the IMF's work. Ahamed's book helps address this gap.

The monograph is organized around four facets of the IMF's activities: daily life at headquarters in Washington; the whirlwind of the October 2012 IMF–World Bank Annual Meetings in Tokyo; a “mission”—or staff visit—in October 2012 to Ireland, one of the few “advanced” economies to borrow from the IMF in recent years; and a November 2012 mission to Mozambique, a serial IMF borrower and heavily aid-dependent poor country. This mix provides Ahamed with a platform to discuss a broad range of IMF staff activities and their links to the global economy.

Ahamed strikes a balance between acknowledging the prosaic elements of the IMF's work—even when he

Learn to Grow

Joseph E. Stiglitz and Bruce C. Greenwald

Creating a Learning Society
A New Approach to Growth, Development, and Social Progress

This landmark book, initially conceived as a set of lectures in honor of Kenneth Arrow (and implicitly of Bob Solow), combines Arrow's classic learning-by-doing paper with Solow's growth model. It proposes that technical change is a process of learning and that firms grow and countries develop as they learn in three ways—invention, innovation (adapting inventions to production processes), and “learning how to learn.” What differentiates successful from less successful economies, the authors say, is a process of learning that permits firms, sectors, and eventually the whole economy to achieve its true potential.

The idea that learning determines economic success ties together various strands of the literature and calls others into question. The vaguely defined “dynamic comparative advantage” is fleshed out by questioning whether the standard notion of comparative advantage, based on the factors of production, still has meaning (in a world of capital mobility). The authors propose that most firms are stuck inside a production possibility frontier; learning allows them to approach the frontier and push it out, even though some might argue that such a frontier may itself be ill defined in a world in which firms and economies grow by learning. Perhaps most fundamentally, the book provides a fresh perspective on the role of government in stimulating growth and welfare. Knowledge is a public good and absent government intervention will be undersupplied in a competitive market economy. Yet how much government intervention yields the most learning is not clear-cut.

Joseph Stiglitz and Bruce Greenwald argue that Joseph Schumpeter's view that monopolies generate innovation does not always hold, but acknowledge that the opposing view—that competition offers greater incentives for innovation—may not always be true either. Firms under competition are smaller and hence less able to bear the fixed costs of innovation. The book makes a strong case for industrial policy that spurs domestic firms to innovate and learn, and retain that learning at home. But the type of industrial policy it proposes is quite different from the recently revived
admits they bore him—and capturing the sense of purpose most IMF staff members are privileged to experience. In Ahamed's telling, the IMF's nerds sweat the details of the global economy so the rest of us don't have to.

**Ahamed provides an insider's view.**

If anything, Ahamed could paint the IMF staff with a little more color beyond the near-uniform standard of dark suits and ties. I yearned to see more of the stories and characters that make the IMF a richly textured place to work: to wit, the Sandinista cashier in the IMF bistro dispensing advice on markets, the Finnish mission chief who could hold his liquor better than any ex-Soviet finance minister, and the Iranian Executive Director who helped champion the extension of marriage benefits to same-sex couples years ahead of most IMF member countries.

Ahamed notes that 150 nationalities are represented among the IMF staff, but his notion of diversity doesn't seem to go further than passports. The improving experiences of various minorities chart the evolution of the institution itself and would have made for some pithy insights into IMF culture and some occasionally tragicomic tales.

At the same time, Ahamed argues that the IMF staff embodies *e pluribus unum* on a global scale: a disciplined team with homogenous views. But he doesn't explain why: they went to the same graduate schools, studied with the same professors, and wrote dissertations on the same subjects. That doesn't mean they all think the same way, but it does mean they speak the same professional language and can engage deeply on complicated problems.

This sameness produces incredibly heated, if diplomatic, debate behind the IMF's smoked-glass doors. A typical internal review often takes the form of the "Fund sandwich": it notes a research paper has been beautifully written; goes on to demolish every substantive point made; and finishes with compliments on the econometric technique employed. Where the IMF is distinct from other institutions, such as the World Bank, is that its policy blood-sports stay inside the building: once an argument's settled, the staff presents a unified front to the world.

This discipline has meant that, among many banks, only one financial institution has become so central to the global economy that it's known simply as "the Fund." In *Money and Tough Love*, Ahamed provides an insider's view of how the staff works to make the IMF more than the sum of its 2,500 human parts.

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practice of "picking winners," especially winners based on comparative advantage.

These and other somewhat complex ideas are presented in an intuitive and systematic way. Occasionally, simple models (in the Arrow-Solow tradition) are introduced to sharpen intuition and clarify conclusions. Parts I and II are a model of how to present new ideas to an economically literate, but not necessarily specialist, readership. Part I starts with the importance of learning, proceeds to a description of how firms learn, takes on the issue of market structure, and ends with welfare and economy-wide considerations. Part II delves into more complicated issues, such as learning in a closed economy and long-run dynamics, but still based on intuition and simple models. Parts I and II are a tutorial in thinking like an economist—using the profession's tools to solve the most compelling problem of our time: how to help societies achieve sustainable growth. Stiglitz and Greenwald's enthusiasm for the subject is infectious.

Part III, "Policies for a Learning Society," is, however, a bit of a disappointment, in part because it lacks the rigor and intuition of the first two parts. This section begins with a long and rather tired critique of the Washington Consensus and full-blown trade liberalization. Whether or not this is a straw man argument, the critique does nothing to draw out the policy implications of the authors' theory of a learning society. The first two parts of the book make a solid case for government intervention to promote learning. The challenge is how to design these interventions in such a way that they don't create the kinds of government failures that accompanied previous attempts at intervention (such as the misguided industrial policies in Africa before the 1990s). Stiglitz and Greenwald allude to this challenge in their brief section on political economy. But they provide no guidance (except for the universal "it depends on country circumstances"). Yet this is the question that policymakers, especially those who have been burned by well-intentioned but ultimately damaging policy advice, are asking. It is also the challenge posed by Philippe Aghion in his discussant's comments on the original lecture, in which he asks whether the arguments for industrial policy are "stronger than the powerful political economy counter arguments" and concludes with the sensible advice to "experiment, and then make sure you can stop the intervention if it turns out not to be efficient."

This book is so powerful and well done that the disappointment with the policy section is not a criticism. Rather, it is an invitation to write a follow-up volume, one that addresses head on questions of policy design and implementation—as well as the underlying political incentives—for a learning society.

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