The Policy That Shall Be Named:

The International Monetary Fund and the Return of Industrial Policy

Greg Brownstein
George Washington University
greg.brownstein@gwu.edu | gregbrownstein.com

Note to Reader: Thank you for taking the time to read my work. To help guide your reading, I wanted to provide some context. This is a first draft that requires substantial work, though I think it's a compelling and important puzzle. As such, the draft describes the puzzle in detail. My biggest challenges writing this piece were conceptualizing and measuring the outcome (institutional or rhetorical change) and situating within various IO literatures (change, legitimacy, expertise, etc.). I would particularly value your view on the concept of hedging and how to strengthen the project empirically. Thanks again!

I. Introduction

Over the last decade, industrial policy made a dramatic return to economic policy prominence. Industrial policy (IP) describes policy measures through which the state directs domestic production to achieve various national objectives. States turn to industrial policy to boost the global competitiveness of domestic firms, increase domestic production of critical goods, bolster national security, pursue decarbonization or technological innovation, and more. Trade barriers are among the most commonly used IP tools. In 2010, only 54 discriminatory trade policies were enacted. By 2023, that number had surged to 455, representing an astonishing 740% increase (Evenett, et al. 2024). States, firms, and leaders are grappling with this new reality. So too are the international financial institutions.

The International Monetary Fund (IMF or the Fund) once held such a negative view of industrial policy that the term itself was taboo. Fund staff dubbed IP "the policy that shall not be named". Industrial policy was seen as entirely inconsistent with prevailing neoliberal economic policy ideas that informed—and, to a large extent, continue to inform—the economic policy views of the Fund's technical staff. IP was relegated to a scrap heap of "heterodox" economic views. But as industrial policy grew in popularity, the Fund embarked on a dramatic transformation; suddenly, the "policy that shall not be named" was a major focus of the Fund's analytical work and its public engagement activities. In 2024 alone, the Fund had published multiple major analytical works, launched a new IP research initiative, shifted its institutional view with regards to the effectiveness of IP, and increased surveillance of IP initiatives.

Why the sudden shift? I argue that international organizations may exhibit profound shifts in rhetoric and policy in response to changing policy or political environments. Such changes can occur absent pressure from powerful member states or consensus among technical staff. These hard-to-explain changes occur because IOs seek to safeguard their legitimacy in response to changing policy environments. One strategy IOs may deploy under such circumstances is strategic hedging. Hedging occurs when an IO simultaneously accepts and rejects policy change in order to ensure its continued relevance during times

of uncertainty. Just as investors hedge to protect against an unknowable future, IOs do so to navigate periods of tumultuous change.

In this paper, I analyze the IMF's response to IP in order to illustrate the concept of strategic hedging. The IMF is a hard case. Given its historic aversion to state intervention, the IMF is least likely among major international financial institutions to exhibit any changes in response to the rise of industrial policy. To support my argument, I used primary source documents drawn from the IMF Archives and website and conducted six interviews with former IMF officials, including members of the Fund's senior leadership.

The paper proceeds as follows. First, I will illustrate the puzzle. By reviewing international relations scholarship focused on change, I demonstrate that the existing work in this area does not successfully explain the Fund's recent behavior with regards to industrial policy. Second, I define the concept of strategic hedging. Finally, I examine the case of the IMF and industrial policy. I focus in particular on the manner in which IP threatens the Fund's legitimacy and how the Fund has engaged in strategic hedging, which includes detailed descriptions of how the Fund has changed and how it has not.

II. The Puzzle: Why Did the IMF Start Talking About Industrial Policy?

At some level, it is unsurprising that the International Monetary Fund began studying, developing institutional views, and publicly discussing industrial policy. As I detail in the case analysis section below, IP exploded in popularity beginning around 2010. Restrictive trade measures, domestic production subsidies, and other measures in the industrial policy toolbox became common in a diverse range of states. Correspondingly, industrial policy became a major focus of debate among both academic economists and economic policymakers. Since it typically involves either fiscal expansion or trade distortion, industrial policy intersects with the Fund's mandate and expertise in important ways. For these reasons, it may appear unsurprising that the Fund turned its attention towards industrial policy. But closer analysis finds the Fund's increased attention to industrial policy to be a puzzling phenomenon for three reasons: because it increases conflict, was not pushed for by powerful member states, and does not align with the Fund's expertise.

First, the Fund's work on industrial policy may increase conflict, not reduce it. That the Fund's rhetoric may increase conflict runs counter to two prominent views of institutional change, each of which views rhetoric as a conflict-management tool: organizational hypocrisy and strategic ambiguity. Weaver (2009) argues that international organizations practice "organizational hypocrisy" when they face multiple, competing demands from actors external to the organization. To navigate these contexts, IOs may say one thing and do another because it allows them to satisfy these demands. For example, the World Bank discussed certain approaches to poverty alleviation but did not systematically integrate these perspectives into their lending programs (Weaver 2009). Another strategy that IOs may adopt to manage conflict is strategic ambiguity. Van Gunten (2015) argues that international organizations may refrain from developing clear views on an important issue in order to avoid conflict. In this case, IO rhetoric is intentionally unclear as an attempt to reduce conflict between member states. Organizational hypocrisy and strategic ambiguity see rhetorical change as a conflict-management strategy.

Rather than reducing conflict, the IMF's shifting approach to industrial policy seems to invite conflict. Industrial policy is a significant vector of competition among major IMF shareholders, particularly China, Europe, and the United States. For decades, the US has characterized Chinese industrial policy as an unfair, non-market practice that violates international commitments. Europe and the United States have had disagreements about domestic manufacturing subsidies, most notably in the aerospace sector. The IMF's increasing focus on industrial policy, and particularly its attempts to define appropriate industrial policy, threatens to bring these policy fights into the Fund. Since major powers have not pressed the Fund to focus on industrial policy, doing so appears to invite the possibility of heighted conflict within the Fund's governing apparatus. It is not hard to imagine powerful member states competing over the Fund's definition of appropriate IP and contesting that definition once it is established.

Second, the Fund has increased its focus on industrial policy absent pressure from powerful member states, a manner inconsistent with one of the major theories of IO change. Some scholars posit that international organizations change when their powerful member states want them to. This view is consistent with realist and rational or distributive theories of international organizations. Realists see international organizations as

epiphenomenal to power—that is, they reflect the preferences and interests of powerful actors (Mearsheimer 1994; Kentikelenis and Babb 2019). Similarly, rational or distributive theories of international organizations view IOs as the result of intra-state bargaining through which states pursue their interests (Koremenos et al., 2001; Nielson & Tierney 2003; Stone 2004). In each case, change at international organizations can be explained with reference to the interests of member states. This story is consistent with the basic logic of principal-agent models that understand international organizations as agents to which state principals delegate authority. States acquire influence within international organizations by occupying critical positions within governing bodies, contributing (or threatening to withhold) financial resources, and acting as thought leaders on technical issues of relevance to the organization's mandate. States that wield these power resources are able to advance their own agendas, often in ways that drive change in rhetoric or policy.

The Fund's rhetorical shift would not be puzzling if powerful member states were pushing for more sustained Fund engagement on the topic; but there is no evidence that these actors have been encouraging the Fund to do so. The United States, Japan, China, Germany, France, and the United Kingdom exercise the most influence over Fund policy since they collectively command 44.3% of IMF Board vote shares. I reviewed more than 50 statements in the IMF Archives made by finance ministry officials from these countries in advance of recent Board meetings. These statements are used to publicly preview state priorities. For instance, many of the statements reviewed press the Fund to do more on other priorities like sovereign debt relief or climate change. My review identified no evidence that these influential states have publicly pressed the Fund to adopt a more favorable position on industrial policy. In addition to these findings, I interviewed six former IMF officials who closely follow Board activities. This evidence is critical since these former officials expressed an awareness of conversations that are occurring outside the Fund's formal venues for debate and public view. None of them indicated that powerful states are privately advocating for policy change at the Fund with regards to IP.

Third, both the ideational environment and the Fund's "intellectual technology" are ill-suited for analyzing industrial policy interventions and developing coherent policy views. In some respects, industrial policy falls neatly within the Fund's expertise. IP interventions often involve fiscal policy. In the United States, for instance, industrial policy

has combined trade-related measures with large expansions in public spending, including production incentives for semiconductors and various clean energy products. The Fund has deep expertise in fiscal policy: the Fiscal Affairs Department is among the Fund's largest, the Fiscal Monitor is one of its most closely watched technical publications, and fiscal consolidation or reform is a common loan condition. In fact, the Fund's focus on fiscal policy is so extensive that observers have given the IMF the moniker "It's Mostly Fiscal". The Fund's preoccupation with fiscal policy emerges naturally from its view of balance of payments crises as emerging naturally from domestic policy choices.

While the means (fiscal policy) of IP fall within the Fund's expertise, the ends that countries are pursuing through IP interventions do not. Of IP interventions enacted in 2023 that have a stated purpose, 50% are focused on boosting the global competitiveness of domestic firms and 15% have national security objectives, both of which pose unique challenges to the Fund's intellectual foundation. Industrial policies that aim to boost domestic competitiveness typically do so by insulating domestic firms from international competition, either through trade restricting measures or subsidies. The Fund does not have the trade expertise required to assess these goals and its normative commitment to an open global economy prevents it from seeing these motivations as legitimate. With regards to national security, the Fund has clearly and firmly stated that it will not assess the extent to which economic policies contribute to security goals, as these lie beyond its mission and expertise. Since the Fund is either unable or unwilling to evaluate IP interventions that seek to distort trade or advance national security objectives, it is fundamentally unable to properly assess the full range of industrial policy interventions.

Even if the Fund were better positioned to study IP, the ideational environment in which the Fund operates is characterized by deep disagreement and uncertainty. Some IR scholars argue that ideas can drive change at international organizations with autonomous expert staff. Barnett and Finnemore (2004) view international organizations not only as tools of powerful states, but as actors in their own right, with unique patterns of behavior, organizational cleavages, and pathologies. In this tradition, autonomous IO staff with expertise can change or expand the goals of the organization in a manner consistent with its unique expertise. With regards to the Fund, its expert staff, who are overwhelmingly trained in economics at US institutions, may drive change in a manner consistent with its

core intellectual commitments to neoclassical and liberal economic theory. As dedicated consumers of technical and academic research into economic policy matters, changing ideas in the economics community may induce changes in staff views that then change the goals or policies of the organization (Metinsoy 2021).

But evidence suggests that the economics community remains divided with regards to industrial policy. For instance, academic economists in the United States do not have a consensus view on IP. I interviewed two academic economists with experience working on IP-related issues. They indicated that while the academic community is more open to IP than it has been in the past, there remain serious concerns about the effectiveness, efficiency, and feasibility of state-directed industrial production. Even academic economists who are supportive of IP recognize that successful design and implementation is a significant challenge. If the Fund adapted its views due to broader ideational shifts, I would anticipate either a consensus or at least a dominant view within economics departments. That is clearly not the case.

The IMF itself remains divided on the merits of industrial policy. Ideas-based theories of institutional change argue that change is most likely when new ideas are supported by critical actors within the IO bureaucracy. In the case of the IMF, the Strategy, Policy, and Review Department (SPR) is the key actor. SPR is responsible for the "IMF's strategic direction and the design, implementation, and evaluation of Fund policies" (IMF 2024). As one former official indicated, SPR is the "keeper of the macro flame" responsible for upholding core macroeconomic principles that shape the Fund's work. In short, this means that no Fund policy or lending program can be approved without SPR's consent. An interview with a former director of SPR who stepped down in 2021 revealed deep divisions among SPR staff with regards to industrial policy. The former director indicated that while senior economists remain committed to neoliberal economic policies, a cohort of junior economists views industrial policy more favorably. Deep ideological division among the Fund's key department makes rhetorical and policy shifts on this front puzzling.

In this section, I have demonstrated why the Fund's focus on industrial policy is puzzling and why common explanations of organizational change are inadequate. To summarize, why would the Fund choose to wade into a policy area that is characterized by a high-degree of conflict in which it lacks intellectual tools? The evidence presented here

suggests that powerful member states have not pressed the Fund to engage on industrial policy; it has done so willingly. Industrial policy debates remain highly contentious; academic economists and IMF staff do not agree on the appropriateness or effectiveness of industrial policy. And the Fund's expertise is ill-suited to the task of analyzing industrial policy and prescribing good practices because it is either unable or reluctant to engage on trade distorting or national security policies.

III. The Argument: Hedging to Protect Legitimacy

If existing international relations scholarship is unable to effectively explain the Fund's recent behavior, what does? I argue that the Fund's increased focus on industrial policy should be viewed as a legitimation tactic. Tallberg and Zurn's (2019) define legitimacy as the perception that an institution's authority is "appropriately exercised". In other words, an international organization is legitimate when key actors or audiences view its authority as appropriate. International relations scholarship has established that IOs rely on and carefully guard their legitimacy (Tallberg and Zurn 2019; Schmidtke and Lenz 2023). Their ability to carry out responsibilities, craft new rules, and ensure compliance with those rules is a function of legitimacy to some extent (Tallberg and Zurn 2019). And international organizations seek to strengthen their legitimacy through institutional reforms, substantive policy changes, and public relations or communications (Seabrooke 2007; Halliday et al. 2010; Ecker-Ehrhardt 2018). This makes clear that legitimacy-seeking behaviors are a source of change at international organizations.

I argue that strategic hedging is one of the ways in which IOs safeguard their legitimacy. In finance, hedging is a risk management strategy in which an investor takes opposite positions on the same asset. By adopting two opposite positions, the investor recoups some of their initial investment regardless of whether the asset appreciates or depreciates. Uncertainty is a key motivation for financial hedging: since the future price of an asset is unknown, investors hedge to protect themselves against a more full range of potential outcomes.

I argue that international organizations deploy a similar strategy during periods of political or policy uncertainty. In his work on the politics of crisis, Lipscy (2020) argues that

uncertainty is highest under novel conditions, in which the preferability of various policy responses is unclear. International organizations frequently face uncertain conditions. The political fates of member states may be unclear, patterns of cooperation and conflict between member states may be unsettled, and policy paradigms or norms may be undetermined. In this article, I focus on policy uncertainty. Uncertainty in the policy environment exists when the preferences of states—particularly powerful or influential ones—are either uncertain or not clearly communicated. For instance, the United State's level of commitment to the neoliberal economic order in the present period is uncertain. As I discuss in much greater detail below, the introduction of industrial policy measures in the United States calls into question its longstanding support for open markets, free trade, and globalization.

During periods of uncertainty, I argue that IOs deploy a hedging strategy to ensure their continued relevance or legitimacy regardless of the direction in which policy conditions proceed. IOs hedge by simultaneously accepting and rejecting change.

IOs will accept change by increasing focus on the new policy idea, changing rhetoric to incorporate terms from the new policy environment, and offer conditional endorsement of new policy ideas. Doing so achieves two legitimation objectives. First, it extends the organization's expert legitimacy into the new policy area. This is particularly important for organizations whose legitimacy is based on expertise. If the new policy environment exists outside of the IOs expertise, then accepting change is a means of redrawing the boundaries of the IO's expertise in order to incorporate the new policy environment. Accepting change redefines the scope of the IO's expertise in order to sustain its expert legitimacy. The second objective that is achieved through change relates to the IO's powerful member states. IOs want to avoid appearing out of step with member states. When the policy preferences of powerful member states and an international organization diverge, the IO may need to criticize the state's policies, potentially triggering a separate delegitimizing event. Ensuring some degree of consistency between the preferences of states and the IO also helps the IO avoid attack from member states, who might withhold funding or withdraw from the organization in response to policy divergence.

In addition to these changes, an IO practicing strategic hedging will simultaneously reject elements of new policy ideas that contradict the IO's core policy principles and use

research and public engagement to support those principles. Wholesale normative change poses a potentially fatal threat to an international organization (Eilstrup-Sangiovanni 2020). IO leaders will therefore move to defend foundational policy principles that are seen to be under threat in the new environment. Through analytical work and public engagement, the IO will argue that these core principles are important and should not be abandoned. The IO may also seek to provide evidence that the policy principles are not inconsistent with the emerging policy environment.

Table 1: Observable Implications of Strategic Hedging

Action	Observable Implications
Accept Change: IOs accept limited changes based on the new policy environment.	• IOs increase focus on new policy ideas in research and public engagement. • IOs change rhetoric to incorporate terms that reflect the new policy environment. • IOs change policy views to reflect conditional endorsement of new policy ideas.
Reject Change: IOs protect core policy principles that are threatened in the new policy environment.	• IOs reject elements of new policy ideas that contradict the IO's core policy principles. • IOs use research and public engagement to support core policy principles.

Introducing the concept of strategic hedging is useful for two reasons. First, it illustrates how seemingly contradictory legitimation strategies can operate in tandem. An IO that hedges simultaneously accepts and rejects change. While IO literature typically views rhetorical or policy change as a simple binary variable, hedging allows for a more close examination of contradictory and messy forms of change. Cases that fit within this framing might be dismissed as ephemeral or unimportant, but it should be noted that messy, incomplete, and inconsistent forms of change are typical within international organizations. For example, Kaya and Reay (2019) introduce the concept of "fragmented

change" to describe how different dimensions of a policy paradigm can shift at different speeds and at different points in time within an international organization.

Second, hedging reveals how IOs respond to delegitimizing crises. Drawing from Lipscy's (2021) discussion of the politics of crisis, I argue that external crises are events outside the control of the international organization that alter the policy or political environment, challenge the organization's legitimacy, and are characterized by uncertainty and time pressure. While the threat to legitimacy and time pressure push an organization to act, uncertainty about the trajectory of interests and ideas makes it difficult to identify strategically appropriate next steps. Instead of opting for sweeping changes to rhetoric or policy, IOs pursue hedging in moments of crisis.

IV. The Case: The IMF and Industrial Policy

I now consider the International Monetary Fund's response to change and uncertainty in economic policymaking that occurred in the mid-2010s and early-2020s. I argue that the Fund used strategic hedging regarding industrial policy in order to safeguard its legitimacy amidst the growing political popularity of economic nationalism. Simultaneously, the Fund sought to defend principles that are core to its mission, as the concept of hedging predicts. The evidence presented in this section was collected from interviews with six former IMF officials and documents drawn from the IMF archives and website.

Economic Nationalism and Industrial Policy

The increasing political popularity of economic nationalism is among the most significant developments in the global political economy of the last two decades. It is a particularly striking shift from the era that preceded it. Before the rise of economic nationalism, the neoliberal economic order was dominant. The neoliberal order has been defined by historian Gary Gerstle (2022) as "a political creed seeking to reduce the footprint of government in society and reassign economic power to private market forces". Beginning in the United States and Great Britain in the late 1970s, neoliberalism profoundly shaped the

international political economy and the international financial institutions, particularly the Fund (Babb 2012).

How did economic nationalism emerge from the neoliberal economic order? Very briefly, at least two crises made the failures of market-oriented, neoliberal economic policy increasingly hard to ignore. First, the Global Financial Crisis put on display the dangers of financial deregulation. The prioritization of bank bailouts over more widely distributed economic supports revealed biases in economic policy making (Tooze 2018). Second, during the Covid-19 pandemic markets failed to provide key medical products like personal protective equipment or ventilators and were unable to provide relief to those most badly impacted by the crisis. In countries around the world, governments were forced to intervene—often in unprecedented ways—to correct for these market failures and blunt sharp economic downturns (Tooze 2021). Together, these crises provided fertile political and ideational ground for the coming shift towards economic nationalism.

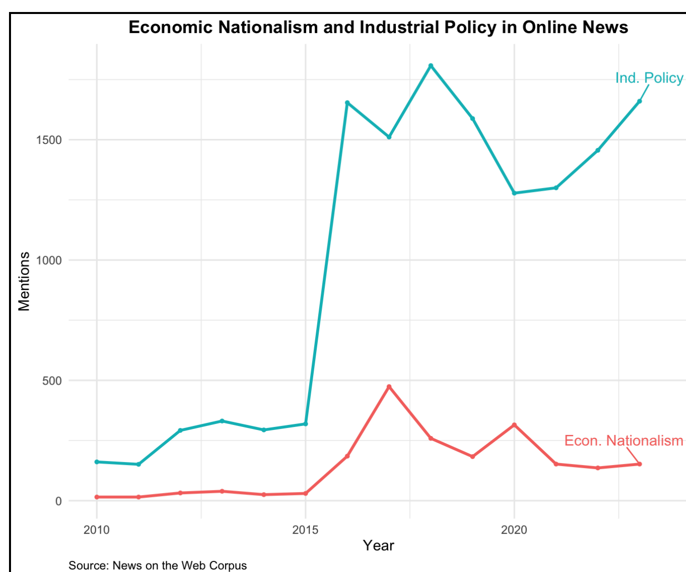
Pryke (2012) defines economic nationalism as a "series of practices to create, bolster, and protect national economies in the context of world markets". Unlike the free market ideology that aimed to tear down trade barriers and capital controls, economic nationalism is fundamentally skeptical of the benefits of global economic and financial openness. Economic nationalists may use a range of policy tools to protect domestic economies, including trade-based measures like tariffs and non-trade interventions like production subsidies. These tools are used to curtail the negative impacts of openness to world markets, which can introduce damaging competition, trigger volatile swings in capital flows, and cause other economic and financial harms. In short, economic nationalism prioritizes domestic production and national economic objectives over global interconnectedness, economic efficiency, and foreign interest.

The election of Donald Trump and Brexit are two high-profile examples of the increasing popularity of economic nationalism. Unlike the Republican or Democratic candidates for president that preceded him, Trump campaigned on a platform of economic nationalism. He promised to withdraw from international institutions, crack down on all forms of immigration, and erect high tariff barriers in order to jumpstart domestic manufacturing (Gerstle 2022). Policies consistent with economic nationalism exhibited political popularity and staying power when Trump's 2020 opponent—Joe Biden—embraced

many of the Trump administration's policies, particularly with regards to trade protectionism. Like Trump's 2016 victory, the passage of Brexit in 2016 clearly demonstrated the political popularity of economic nationalism. British voters decided to leave the European Union because international economic entanglements were viewed as disruptive and constraining (Daunton 2023). These political movements and their disdain for economic multilateralism created a crisis of legitimacy for the Fund (Woods 2024).

Beyond Trump and Brexit, scholars have found that the increasing popularity of economic nationalism during this period was widespread. De Bolle and Zettelmeyer (2019) find compelling evidence of a broad shift towards economic nationalism in 2018 when compared to the mid-2000s. In a global survey, they find that the preferences of both new and existing political parties shift over this period from liberalism and multilateralism towards economic nationalism. Crucially, this shift is seen in advanced and emerging economies as well as within left- and right-wing political parties. Skepticism of multilateral institutions is a feature of many economic nationalist or populist political parties. As such, the increasing political prevalence of these actors—particularly within states that have been supportive donors of the IMF— threatened the legitimacy of the institution.

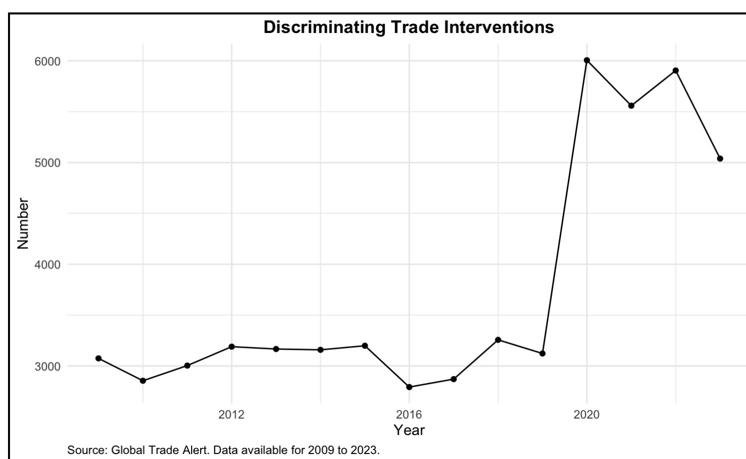
Such an across-the-board shift towards economic nationalism within political parties was complemented by a broader discursive shift. Economic nationalism became a major topic of discussion in both the media and academia. News on the Web (NOW 2024) tracks mentions of specific terms in English-language online news media. As the plot below demonstrates, the term economic nationalism increased over 75% between 2014 and 2015. While these findings are limited to English-language sources, and English speaking countries were experiencing the most dramatic uptick in economic nationalism, they do suggest that economic nationalism was an increasingly common topic of discussion.



While economic nationalism encompasses a wide range of policy areas—including national security and immigration policies, to name a few—I will focus specifically on industrial policy. Industrial policy (IP) is a collection of economic policy interventions that aim to support or develop domestic firms, sectors, or economic activities in pursuit of various national policy objectives (Juhász et al. 2023; Bown 2023). The most common motivations for pursuing industrial policy include protecting domestic manufacturing, increasing export competitiveness, driving technological innovation and diffusion, achieving decarbonization, or building domestic capacity in key dual use technologies. IP most commonly takes the form of either trade-restricting measures like tariffs or industrial subsidies to boost domestic production (Juhász et al. 2023).

Unsurprisingly given the political momentum behind economic nationalism, industrial policy interventions became more frequent during this period. Global Trade Alert (GTA), a research project of the University of St. Gallen, has partnered with the International Monetary Fund to compile a comprehensive database of discriminatory trade policies (Global Trade Alert 2024). Discriminatory trade policy interventions include tariffs and non-tariff barriers that privilege domestic producers relative to foreign ones. Since each of these policies are squarely within the industrial policy toolkit, GTA's data can be used to illustrate the increasing frequency of IP interventions. The chart below shows that the number of discriminating trade interventions increased dramatically around 2015.

Donald Trump's return to the White House makes it more likely that discriminatory trade measures will continue to expand. Among his first actions as US President were to threaten Canada and Mexico with 25% tariffs and propose a reciprocal tariff on all US trading partners. Since researchers have observed a tit-for-tat dynamic in trade protectionism, these moves by the US are likely to be met by heightened tariffs in other countries.



And while these protectionist measures tell part of the story, many countries also embraced industrial subsidies as a means of achieving national objectives or supporting domestic firms in critical sectors. Countries with different economic fundamentals and policy objectives have pursued similar strategies. In the United States, the 2022 Creating Helpful Incentives to Produce Semiconductors (CHIPS) Act provided roughly $280 billion to support semiconductor research and manufacturing in the United States. To accelerate decarbonization and enhance the competitiveness of its green sector, Europe enacted the Green Deal Industrial Plan, which relaxes rules around state aid to green sectors and provides subsidies and tax incentives. Indonesia's National Development Plan 2020-2024 used industrial policy measures, including export restrictions and subsidies, to diversify the economy away from natural resources and towards higher value manufacturing and service. Saudi Arabia's National Industrial Strategy used similar policy tools, though included special economic zones (SEZs), to reduce the economy's dependence on energy exports. As these few examples demonstrate, it is unmistakable that industrial policy made a dramatic return to economic policy prominence during this period.

Threats to the Fund's Legitimacy

The rise of economic nationalism and the turn towards industrial policy threaten the legitimacy of the IMF. Barnett and Finnemore (2004) argue that international organizations derive legitimacy from three sources, two of which are highly relevant for this discussion. First, international organizations derive moral legitimacy from their important missions. Insofar as the mission of the organization is valued by key audiences, the international organization is more likely to be viewed as legitimate. Second, international organizations derive expert legitimacy based on their widely accepted expertise on certain policy matters. For the IMF, each of these sources of legitimacy have been threatened.

Economic nationalism and industrial policy threaten the Fund's moral legitimacy. In addition to fostering international monetary cooperation and addressing balance of payments crises, the Fund's core missions are to support "the expansion of trade and economic growth" and discourage "policies that would harm prosperity" (IMF website 2024). The Fund's central role in the global economy has changed since its inception at Bretton Woods in 1944. Its original purpose was to help maintain a system of fixed exchange rates. Following the transition to floating currencies in the 1970s, the Fund became focused primarily on balance of payments crises and surveillance. While the Fund's specific role in the global economy has changed, its commitment to international economic and financial cooperation has remained the normative foundation of its work.

This norm has been challenged by the ideology of economic nationalism, which is fundamentally skeptical of the value of global economic and financial cooperation. This is perhaps most profoundly expressed by the success of the Brexit movement, which was built atop frustrations with the European Union's border-erasing single market economy. Economic nationalist political parties around the world are running on platforms that explicitly reject economic multilateralism, including participation in the International Monetary Fund (Gerstle 2022). The moral legitimacy of the IMF—an organization that includes the expansion of trade in its core mission—is clearly under threat in a political environment that is turning away from economic globalization.

The Fund's role as an economic policy expert is tenuous absent clear consensus on what constitutes appropriate economic policy. One of the Fund's most important functions is calling out bad economic policies when it sees them. It does this in analytical policy work and loan conditionality, through which the Fund presses borrowing states to implement its vision of effective policy (Kentikelenis 2023). But what is good economic policy? Since the 1980s, the Fund has been committed to an orthodox, market-centered view. Kentikelenis and Babb (2019) argue that during this period the IMF became the "world's leading promoter of free markets". But economic nationalism and the industrial policy paradigm pose clear challenges to this understanding of good economic policy. An economic nationalist might argue that global free markets have hollowed out national economies, produced destabilizing imbalances, and created dangerous dependencies. Despite the challenge that these arguments present to free market ideology posed by economic nationalism and industrial policy, the IMF has in large part remained committed to these legacy views (Metinsoy 2021). How the Fund can achieve its core purpose of discouraging bad policies in an era characterized by the rise of heterodox views is not clear (Woods 2024).

A particular challenge for the Fund is navigating the multiple motives for industrial policy, many of which sit outside the Fund's expertise. At its most basic level, much of industrial policy is fiscal policy insofar as it uses taxes, subsidies, and other forms of government spending to drive production in strategically beneficial directions. Fiscal policy, of course, falls squarely within the Fund's expertise and mandate. But some of the national objectives motivating industrial policy do not. National security objectives, for instance, cannot be assessed by the Fund, limiting its ability to determine which policies have been successful. Other industrial policy interventions are designed to increase the global competitiveness of domestic firms by restraining international competition. The Fund's commitment to a free and open global trading system prevents it from assessing the usefulness of these measures. Still other IP programs focus on decarbonization. While the Fund's capacity in this area is rapidly expanding, it remains a relative weakness when compared to traditional areas of expertise like fiscal policy or capital markets. Put plainly, as industrial policy becomes a larger feature of the economic policymaking landscape, the less relevant the Fund's expertise may become.

Change at the IMF

The concept of hedging suggests that the International Monetary Fund will embrace some changes in response to the return of IP to the fore of economic policymaking. In this section, I describe those changes in greater detail. In short, the IMF dramatically altered its rhetoric by introducing the term industrial policy. The Fund also committed to collecting information, identifying goods practices, and sharing those findings with member states. In this way, the Fund is attempting to support good industrial policy, rather than simply rejecting its usefulness or appropriateness.

A 2019 IMF working paper dubbed industrial policy "the policy that shall not be named" (Cherif and Hasanov 2019). This pejorative term plainly summarizes the Fund's historical views on industrial policy. Even as member states experimented with policy interventions to boost domestic sectors or firms, the IMF refrained from using the term industrial policy, let alone engaging substantively on the matter. A review of the 31 working and policy papers published by IMF staff between 2008 and 2016 finds no use of the term industrial policy. While some of these works focused on structural adjustment and economic diversification—which are often goals of industrial policy—none of them specifically discussed the industrial policy toolkit. IMF surveillance documents provide further evidence. Only 16 of approximately 1500 Article IV reports published during this period mention industrial policy. In light of this evidence, Cherif and Hasanov's (2019) characterization of the Fund's approach to industrial policy appears accurate.

But as economic nationalism and industrial policy threatened the Fund's legitimacy, the Fund embarked on a profound rhetorical pivot. Beginning in 2024, the "policy that shall not be named" became one of the most frequently discussed topics in the Fund's analytical work. In 2024 alone, the Fund published five major works on industrial policy that outlined the Fund's views on IP, described global trends in IP, and discussed how the Fund will increase coverage of IP in its surveillance and analytical work. These written works are complemented by an uptick in industrial policy coverage in formal remarks offered by the Managing Director and other outlets, including blog posts and social media (IMF 2024).

Finally, interview evidence suggests that industrial policy became a major point of discussion during the IMF and World Bank's 2024 spring and annual meetings.

This shift, however, is not just rhetorical: the Fund's policy views with regards to IP have also changed. For instance, in a 2024 paper Fund staff argue that IP can be "effective" and "beneficial" when markets have failed to deliver optimal outcomes. This is particularly the case with regards to technological innovation. The 2024 Fiscal Monitor focused on designing cost-effective industrial policies to drive technological diffusion and innovation. The authors find that such policies can boost productivity and growth as long as certain conditions are met. Fund staff argue that industrial policy is most likely to be effective when externalities can be measured, domestic knowledge spillovers are strong, and government capacity is high. Such conditions notwithstanding, my research suggests that these papers are the first instance of Fund staff expressing their approval of any version of industrial policy.

The Fund's shifting approach to industrial policy coverage in economic and financial surveillance provides further evidence of change. A 2024 paper instructs Fund staff to increase their coverage of industrial policy in surveillance activities, particularly in Article IV reports that review member state economies (Danninger et al. 2024). The authors of the 2024 paper argue that industrial policy is increasingly popular among Fund member countries. They claim that these industrial policy interventions have become large enough to be considered "macro-critical", which is to say they pose a genuine threat to national, regional, or global economic and financial stability. Staff further indicate that "IP assessments will support peer learning" (Danninger et al. 2024). Surveilling IP interventions is therefore not only an opportunity to shame bad actors, but a learning opportunity for member countries that are interested in making better industrial policies. The IMF is not only talking about "the policy that shall not be named"—it is helping states implement it.

What drove these changes at the IMF? Interview evidence suggests that the Office of the Managing Director (OMD), which is notoriously concerned about the Fund's legitimacy and reputation, played a large role. All six of the former IMF officials I interviewed indicated that OMD is more politically attuned, media sensitive, and concerned about legitimacy than other departments within the IMF. The former officials also indicated that the Managing Director is afforded greater discretion during periods of crisis and

uncertainty. Since the changes at the Fund occurred amidst high levels of uncertainty—generated by the political and policy dynamics described above—and during the Covid-19-induced economic crisis, it logically follows that OMD would have been empowered relative to other IMF departments during this period. As OMD becomes more influential, it is more likely that legitimacy concerns would drive the Fund's strategy.

Stasis at the IMF

While these changes are significant, the concept of hedging suggests that in today's uncertain policy environment the Fund will reject wholesale change. As anticipated, the Fund during this period did not abandon core policy principles that undergird its work, even though they stood in stark contrast to the principles that motivated the turn towards economic nationalism and industrial policy. Discarding core principles would further undermine—not protect—the Fund's legitimacy. Instead, the Fund's newly adopted view of industrial policy is an example of hedging because the Fund moved to protect two principles that are central to its work and mandate.

First, the IMF remains deeply committed to economic and financial globalization. As a central pillar of global economic governance, the IMF's legitimacy is premised on the view that global economic cooperation can benefit all. A 2002 statement by IMF staff clearly articulates that one of the Fund's principal challenges in the 21st century is enabling "more countries to reap the benefits, while minimizing the risks, of globalization" (IMF Staff 2002). While the Fund's narrow purpose revolves around balancing international payments, its broader purpose centers economic globalization. In response to economic nationalism's challenge to globalization, the Fund has warned about the dangers of geoeconomic fragmentation. IMF staff found in a 2023 paper that geoeconomic fragmentation—or the breakdown of globalized patterns of trade and investment—poses a critical threat to the global economy (Aiyar et al. 2023). The Fund has also called for IP that does not impede global commerce. For example, the 2024 Fiscal Monitor argues that industrial policies should "not discriminate against foreign firms, so as to avoid triggering retaliation by trade partners". While domestic competitiveness is among the most frequent motivations for IP

interventions, the Fund remains committed to an open global economy and has attempted to redefine appropriate IP as non-distortionary.

Second, Fund staff continue to view economic growth as the most important metric with which to judge the success of economic policymaking. The 2024 Fiscal Monitor states that "well-designed (industrial) policies can deliver faster productivity and economic growth". Given the diverse state motivations for undertaking industrial policy that are discussed elsewhere, it is easy to imagine other indicators that might be used to evaluate success. These could include indicators of national security, the competitiveness of domestic industries, decarbonization in targeted sectors of the economy, or the distributive impact of industrial policy through job creation. That economic growth is rarely the only—or even the most significant—driver of industrial policy makes the Fund's commitment to growth all the more interesting. The Fund is protecting its legitimacy through hedging when it embraces industrial policy without abandoning principles like economic globalization and economic growth.

V. Conclusion

I have argued that international organizations may exhibit profound shifts in rhetoric and policy in response to changing policy or political environments. Such changes can occur absent pressure from powerful member states or consensus among technical staff. These hard-to-explain changes occur because IOs seek to safeguard their legitimacy in response to changing policy environments. One strategy IOs may deploy under such circumstances is strategic hedging. Hedging occurs when an IO simultaneously accepts and rejects policy change in order to ensure its continued relevance during times of uncertainty. Just as investors hedge to protect against an unknowable future, IOs do so to navigate periods of tumultuous change.

Based on archival research and a series of expert interviews, I find that the Fund embraced IP in rhetoric and policy while simultaneously protecting core principles of economic globalization and economic growth. I have attempted to demonstrate that the IMF's changing views on industrial policy have been driven predominantly by concerns

about legitimacy, not through pressure from powerful member states or new ideas among key Fund staff.

This paper is only a first step in what must be a broader and deeper research project on the challenges that industrial policy presents to the institutions of global economic governance. Based on the findings presented here, there are two avenues of further investigation that may be fruitful. First, I propose continuing to study the specific case of the Fund and IP. Focusing on such a recent case has obvious empirical weaknesses. The outcome of interest—rhetorical and policy change at the IMF—is likely to undergo further changes as industrial policy gains or ebbs in popularity. In this sense, the findings presented here may represent partial, incomplete change. Closely following this consequential case as the global policy environment and the Fund continue to change would be useful. The entrenchment of an economic policy paradigm that eschews international cooperation and prioritizes noneconomic objectives like national security would have profound implications for the International Monetary Fund.

Second, additional research is needed to refine the concept of strategic hedging. Testing the concept in a wider range of cases would be a logical first step. Doing so would provide variation on both the independent variable (policy uncertainty) and the dependent variable (hedging behavior). This variation would allow for further refinement of these key concepts and a more nuanced understanding of their various interactions. Other research might also consider the conditions under which hedging leads to sustained, transformative change. Understanding the causes and forms of legitimating behaviors is an important endeavor, but understanding how these behaviors feed into lasting, easily observable changes would also be productive. Scholars must urgently investigate the patterns of change at international organizations to understand the present and future of global economic governance in an era of political and policy transformation.

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