

Groupthink

In 2011, a **study** was published by an IMF unit akin to an internal auditor's office into why IMF surveillance had failed to anticipate the global financial crisis.

A key conclusion that it drew was that the IMF suffered from "groupthink".

This is a psychological concept whereby it is suggested that people who find themselves in groups, especially hierarchical ones, tend to think broadly the same as each other — to make similar assumptions, take similar attitudes to risk, and to be conscious of not "stepping out of line" too much.

The study suggested that the IMF had fallen prey to this behavior in its work ahead of the global financial crisis, and this was a key component of its failure to spot the dangers ahead of time.

The explanation has two "attractions" from the ex-post point of view of the IMF. First, it absolves everyone internally of blame because it implies that honest good work by the IMF was undone by a mysterious psychological force operating at low levels of the organization, not by purpose or other factors. Second, it is untestable in the IMF context, and therefore irrefutable.

Accordingly, the IMF Executive Board, when discussing this report, **committed itself** to supporting a greater diversity of views among the staff and indicated that this was a key step towards avoiding a repetition of the unfortunate errors the institution had made on global finance.

However, there are at least two key factors which call this core hypothesis into serious question.

The first is that a key study highlighting the dangers of global finance *was* prepared *in the IMF*, with significant input from many IMF staff. This is Rajan's now famous **paper**. Contrary to the groupthink hypothesis, this indicates "alternative" views were

circulating on a grand scale—the global scale—and at multiple levels of the organization. And not just on a grand scale; IMF surveillance on [Iceland](#)—the tiniest of the tinies—reflected related concerns at an even earlier stage.

These simple facts are strong evidence against claims that "groupthink" was an overwhelming problem among the staff. It was certainly insufficient to prevent the preparation and delivery of these alternative views on risks in finance.

Thus, the fate of these views at the time—which was largely to be discounted and ignored—reflected not groupthink at the lower levels of the IMF, but other factors, including as noted in the main paper, hubris, naivety, and power at the highest levels of the organization.

Second, the claim of groupthink itself misstates form for substance in regard to how the IMF staff operates.

A clear statement of this staff behavior comes from Leslie Lipschitz, veteran of the IMF for three decades and former Department Director [here](#) at page 203. He writes:

"An unwritten injunction in the IMF when I was working there was, "First let's figure out what we believe and then let's figure out what we're going to say." This sounds simple but is actually quite profound. Without this injunction, staff will implicitly be encouraged to anticipate what their bosses want to hear or what will be seen as the politically sophisticated and wise position—one doesn't get promoted for taking contrarian positions. Thus contrarian or even imaginative views will be stifled. On the other hand, if the leadership of the institution follows this injunction it allows—indeed encourages—the airing of a wide spectrum of views, from mainstream to contrarian, before deciding on what is right. It may then be another step to decide what is politically feasible and how to move that toward what is right—this will determine the official institutional view. I can think of numerous occasions where I personally argued vigorously

against the consensus, but then went to the Board the next day to defend it. That is the mark of a really disciplined, effective organization. Inside the organization you can have a completely frank discussion, but this will not be the case if you believe staff members will go to the press the next day to push their own particular views."

In other words, staff speaking with one voice in "public" (even to the Executive Board) can be the guarantee that a diversity of views *will* be aired at staff level, not evidence that dissent is generally suppressed by groupthink.

Whatever the prior debate, the culture and ethic in the institution is that "once a decision is made, it is made, we collectively defend it, and we move on." This is a very different matter from groupthink. Indeed, as Lipshitz argues, it is the mark of a highly disciplined institution whose discipline in public is the very thing that combats propensities to groupthink.

That is certainly my own experience of working on the IMF staff for two decades, including the times when I worked for Mr. Lipschitz. I simply do not recognize the characterization in the IEO report of typical staff behavior as reflecting "groupthink".¹ And this does not just concern staff who were as close to the naturally contrarian end of the spectrum as Mr. Lipschitz, but the full range. The place is internally highly disputatious on all matters.

That said, it is regrettable that neither Mr. Lipschitz nor the authors of the review of IMF pre-crisis surveillance discuss the proper role of individual staff in such a disciplined organization when the decisions go wrong, and not just small ones, but errors which run counter to the organization's founding purposes with significant adverse global consequences. This goes to concerns with norms for staff behavior when they face hubris naivety and power at management and higher levels. At the least, it becomes debatable whether the exercise of discipline by staff in "public" in such circumstances is a good thing.

¹ And having spent some time among isolated white communities in Southern Africa, I can make a fair claim to know what groupthink looks like when I see it. See my tribute to Nelson Mandela [here](#).

The problem has been foreseen in the structure of the organization. In particular, it is reflected in the requirement that all staff papers be approved (signed off by) the Director of the Strategy and Review (SPR) Department. Given this final backstop role for SPR, it would have been appropriate for the review and for Mr. Lipschitz and others, to comment directly on the groupthink, discipline, hubris, naivety, and power matters as they affect SPR. These issues are raised in the accompanying note on [fixed term contracts](#) for senior staff.

Accordingly, in my view, "groupthink" is another useful alibi and "useful" apology that the IMF has used to distract attention from other key problems, including whether SPR played the role assigned to it effectively.

However, this internal disciplined culture on the IMF staff is strong — they will do what they are told. That is very useful indeed. But it also makes it extremely important what their instructions are. Because once those are set, the IMF staff, exercising its customary discipline, will focus all their energies on fulfilling it. Rarely will they try to change course in mid-stream, once the "decision" has been made, even if that decision is wrong.

This takes discussion back to the key problems, which are described in the main paper: "Global early-warning and the IMF".

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