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Playing Favorites: How Shared Beliefs Shape the IMF's Lending Decisions

Stephen C. Nelson

Abstract International organizations (IOs) suffuse world politics, but the International Monetary Fund (IMF) stands out as an unusually important IO. My research suggests that IMF lending is systematically biased. Preferential treatment is largely driven by the degree of similarity between beliefs held by IMF officials and key economic policy-makers in the borrowing country. This article describes the IMF's ideational culture as "neoliberal," and assumes it to be stable during the observation window (1980–2000). The beliefs of top economic policy-makers in borrowing countries, however, vary in terms of their distance from IMF officials' beliefs. When fellow neoliberals control the top economic policy posts the distance between the means of the policy team's beliefs and the IMF narrows; consequently, IMF loans become less onerous, more generous, and less rigorously enforced. I gathered data on the number of conditions and the relative size of loans for 486 programs in the years between 1980 and 2000. I collected data on waivers, which allow countries that have missed binding conditions to continue to access funds, as an indicator for enforcement. I rely on indirect indicators, gleaned from a new data set that contains biographical details of more than 2,000 policy-makers in ninety developing countries, to construct a measure of the proportion of the top policy officials that are fellow neoliberals. The evidence from a battery of statistical tests reveals that as the proportion of neoliberals in the borrowing government increases, IMF deals get comparatively sweeter.

In December 2001 holiday shoppers in Buenos Aires could find a local version of the popular *Monopoly* board game called *Deuda Eterna* ("Eternal Debt") on stores' shelves. In *Deuda Eterna*, players obtain capital and must maneuver around the board while avoiding a number of pitfalls: military coups, capital flight, protectionism in rich countries, and, worst of all, the International Monetary Fund (IMF). The players' goal is simple: "overcome the disadvantages and dispense with the IMF!"¹

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1. *Wall Street Journal*, 21 December 2001, 15.

International organizations (IOs) suffuse world politics, but as the existence of *Deuda Eterna* attests, the IMF stands out as an unusually important IO. The IMF wields its authority and largesse to orchestrate relations between governments and markets. Its resources are substantial: between January 2002 and July 2013 the IMF made more than \$737.5 billion in funds available to needy members. And its policy tools are sharp. In exchange for access to funding, the IMF requires governments to agree to meet a set of policy targets. If the borrower fails to meet the targets, the IMF can turn off the flow of money to the government. The IMF's expansive mandate means that conditional lending is but one of the varied activities the institution pursues. Yet conditional lending is the reason many consider the IMF to be "the most powerful international institution in history."²

The conventional view of the IMF as a cookie cutter, rigidly prescribing the same medicine for different patients, has become inaccurate.³ Scholars document significant variation in each of the three policy tools that make conditional lending possible: the relative size of loans, the extent of conditionality attached to loans, and the punishment for noncompliance.⁴ Variation does not necessarily imply bias, however. Assume that IMF officials sincerely use available policy tools to maximize the probability that a program will succeed. Assume that borrowing governments vary along many relevant dimensions. Conditional on available information and beliefs about the state of the world, the IMF optimizes: it is tough where and when it needs to be and gentle when conditions merit leniency. Policy-makers and activists who rail against the IMF's capriciousness mistake flexibility for bias.

Political scientists, however, have extracted evidence of systematic patterns of bias from the data. Some countries appear to get better deals from the IMF for reasons that have little to do with their prospects for success. The institution's major stakeholders intervene during the lending process, contravening staff members' judgment, to inflate the pot of available funds and water down the conditions attached to loans for favored borrowers.⁵ Systemically important countries receive preferential treatment.⁶

My research also suggests that IMF lending is systematically biased. Preferential treatment is largely driven by the degree of similarity between beliefs held by IMF officials and important economic policy-makers in the borrowing country. Ideational proximity between the IMF and the policy team in the borrower is the key explanatory variable. In order to use this variable to explain variation in treatment of borrowers, I assume that the IMF's ideational culture is stable during the

2. Stone 2002, 1.

3. Stiglitz, for example, argues that by the early 1980s the IMF and the World Bank had both become single-mindedly devoted to market liberalism, applying excessively harsh conditions that depressed the economies of developing countries and unwisely opened domestic markets to the vagaries of international competition. Stiglitz 2003.

4. See Copelovitch 2010; Dreher and Jensen 2007; Gould 2006; Pop-Eleches 2009; and Stone 2008 and 2011.

5. See Copelovitch 2010; Dreher and Jensen 2007; Gould 2006; and Stone 2008 and 2011.

6. Pop-Eleches 2009.

observation period (1980–2000) while allowing the policy team's beliefs to vary in their distance from the IMF.

This theoretical move requires some unpacking. Organizations are, after all, “open systems” that have to learn and adapt in response to changes in their environments.⁷ There is indeed evidence that the IMF responded to the flurries of criticism that followed its interventions in Latin America in the early 1980s and East Asia in the late 1990s.⁸ Yet it is reasonable to assume ideational stability because particular socialization processes work to reinforce belief continuity within the organization. Recruitment practices, as I will describe, ensure that many IMF officials share a formative socializing experience—namely, graduate economics training in a handful of highly ranked American universities.⁹ Changes in recruitment patterns are imperceptible during the observation window.

“Presocialization” through the selection of cohorts that are predisposed to share the IMF's dominant ideas is coupled with elements of the operational culture that preserve belief continuity. The fact that members of the IMF's management tend to measure their time with the institution in decades strengthens the ideational culture's internal consistency.¹⁰ The organization is rigidly hierarchical, so younger staff members have limited ability (and even less incentive) to go against the grain cut by senior officials above them. The pressure on staff members who deal with prospective borrowers to conform to the dominant views is intense.¹¹

This article marshals new data to test the argument. I gathered data on the number of conditions and the relative size of loans for 486 programs in the years between 1980 and 2000. I collected data on waivers, which allow countries that have missed binding conditions to continue to access funds, as an indicator for enforcement. I rely on indirect indicators, gleaned from a new data set that contains biographical details of more than 2,000 policy-makers in ninety developing countries, to construct a measure of the proportion of the top policy officials that are fellow neoliberals. The evidence from a battery of statistical tests reveals that as the proportion of neoliberals in the borrowing government increases, IMF deals get comparatively sweeter.

7. Schein 1990, 116.

8. Not least of which was the establishment of the watchdog Independent Evaluation Office (IEO) in 2001.

9. For Patten, the defining feature of culture is the “formative conditions” to which individuals sharing that culture were exposed. Since no two individuals experience formative influences in exactly the same way, some variation in beliefs among the members of the culture is inevitable. Patten 2011, 741–44. But the formative environment must also confer some shared beliefs, meanings, and practices that distinguish one culture from another.

10. See Babb 2003, 16; and Alan Beattie, “IMF Succession: A Contested Quandary,” *Financial Times* (Internet ed.), 25 May 2011. Available at <<http://www.ft.com/intl/cms/s/0/07ca28e0-8702-11e0-92df-00144feabdc0.html>>, accessed 16 November 2012.

11. Even members of the research department reported that they were encouraged to adjust their findings to make sure that they fit with the “instinctively neoliberal approach to policymaking” favored by the IMF. Alan Beattie, “Carstens Urges IMF to End Wealthy Bias,” *Financial Times* (Internet ed.), 21 June 2011. Available at <<http://www.ft.com/intl/cms/s/0/a7a675fc-9be9-11e0-bef9-00144feabdc0.html>>, accessed 16 November 2012.

The Elements of IMF Lending

The lending process is kick-started when a member state approaches the IMF to obtain financing. Other members can in principle erect roadblocks to prevent the IMF from moving forward.¹² In practice the request for help triggers a series of bureaucratic routines that culminate with the loan proposal put before the Executive Board for a vote.¹³ The principle of neutrality—the IMF makes funds available to any kind of government, provided it can credibly demonstrate a financing need—is enshrined in the Articles of Agreement that define the institution’s mandate.¹⁴ The IMF is the rare credit union that never rejects a loan applicant.

The IMF is, however, endowed with a set of tools to ensure that its resources are put to productive ends. To mitigate moral hazard problems IMF loans were capped at 300 percent of quota.¹⁵ While most loans fall somewhere in the interval between 100 and 300 percent of quota, the distribution is skewed: loans in the data set used here ranged between 15 percent (Bulgaria’s 1994 standby agreement) and 1,939 percent (Korea’s December 1997 loan). The limit on access is not a hard-and-fast rule; in “exceptional circumstances” the staff can waive the ceiling on loan size. Between 1980 and 2000 the IMF approved thirty-one programs that exceeded 300 percent of quota.¹⁶ Rules governing the size of loans are flexible because the decision environment is uncertain: while “the probability that the program succeeds in stemming a crisis is generally an increasing function of the IMF resources committed,” officials have to assess on a case-by-case basis the prospects for the program, which depend on a wide range of unpredictable economic and political factors.¹⁷

Conditionality is the IMF’s most controversial policy tool. When a borrower agrees to terms and the staff and management have settled on the size of the disbursement, the borrower can access only a fraction of the total amount specified in the loan agreement. Access to additional tranches is contingent on compliance with policy targets, which are spelled out in the Letter of Intent signed by the economic authorities in the borrowing country.¹⁸

12. There is no evidence to suggest that the IMF has ever turned down a request for funding from a member. The United States apparently tried to derail a loan to India in 1981, but the program (the largest in the Fund’s history to that point) went forward regardless. At best, other members can try to drag out the period between agreement on terms between the borrower and the IMF and the approval of the loan. Stone 2011, 135.

13. Member states are represented through the twenty-four executive directors (EDs) that constitute the Executive Board. Voting on lending proposals from the staff is informal and recorded on an up-or-down basis, and the EDs almost always unanimously approve proposed loans.

14. See Swedberg 1986, for a skeptical view.

15. Quotas are subscription fees that members pay for the right to make purchases from the IMF’s general pool of resources. The access limit doubled (to 600 percent) in 2009.

16. In addition, the IMF occasionally augments loans after the date of approval, pushing the cumulative disbursement above the limit.

17. See Stone 2011, 137; and Krueger 2003, 306.

18. Babb and Carruthers distinguish between *ex ante* (loans in exchange for promises of future good behavior) and *ex post* (conditions have to be met before any money is disbursed) conditionality. Babb and

Conditionality plays several roles in helping the IMF's staff and management to carry out the institution's mandate. The primary goal of binding conditionality is to limit the borrower's policy discretion to ensure "full and expeditious repayment" of the loan.¹⁹ The IMF views itself as providing a lifeline to countries suffering balance-of-payments problems that are in good part a consequence of unwise policies; giving loans without narrowing the range of policy actions available to the government risks feeding a permanent payments crisis (or, worse, rewarding failed policies).

A second-order goal of conditional lending is to improve overall economic performance. Conditionality is a way to ensure that the borrower follows a consistent, comprehensive reform program, since unfettered governments that institute effective reforms in one area of the economy often let policies deteriorate in another.²⁰ Conditionality can play a role in catalyzing inflows of private capital, as well, by signaling that the borrower is serious about stabilizing and reforming the economy.²¹

Since policy discretion is decreasing in the degree of conditionality, governments dislike paying the "sovereignty cost" that a comprehensive IMF program entails.²² Not all countries that go to the IMF pay the same cost, however. While the general trend is upward, in each year programs vary widely in the breadth of conditionality. [Figure 1](#) tracks the number of binding conditions in each of the 486 programs included in the data set.²³ "Binding conditions" refer to what are known in IMF parlance as "performance criteria." These are the conditions with teeth: violating a performance criterion will trigger the program's suspension unless a country can obtain a waiver for noncompliance from the Executive Board.

Conditionality is not included in the IMF's Articles of Agreement. It was only after the IMF turned its attention to the developing world in the 1970s that loans began to include numerous conditions, and the practice has evolved without any precise rules to guide staff members and management on how best to apply the policy tool. An institution-wide review of conditionality in 1978 produced guidelines intended to make treatment of borrowers more consistent.²⁴ But by the mid-1980s those

Carruthers 2008. The IMF employs both types. I focus on *ex ante* conditionality in this article because it is the form that has the most bite. "Prior actions" that borrowers completed before the agreement was approved are sometimes listed in agreements, but it is not always clear whether a prior action was required by the IMF or pursued independently by the government. For an empirical examination of the covariates of prior actions, see Copelovitch 2010.

19. Polak 1991, 8. Timeliness is a more pressing concern than full repayment: by custom, IMF loans are senior to all other international debt owed by sovereigns. Stone 2002, 11.

20. See Acemoglu et al. 2008; Rodrik 1989, 757; and van de Walle 2001.

21. Copelovitch 2010.

22. Vreeland 2003.

23. In [Figure 1](#), the horizontal line marks the median number of conditions in IMF programs signed that year, and the boxes denote the interquartile range of observed values. Individual observations appear in the figure as the short vertical lines (multiple observations that take the same value are stacked).

24. The policy approved in March 1979 reads: "while no general rule as to the number and content of performance criteria can be adopted in view of the diversity of problems and institutional arrangements of members, only in special circumstances will performance criteria relate to other than macroeconomic variables." IMF 1978, 2.

guidelines were discarded as the scope of conditions was expanded to target “structural” distortions in borrowers’ economies (eliminating subsidies, freeing prices of goods, liberalizing trade, privatizing state-owned assets, etc.). There is no limit on the number of conditions that can be attached to a loan, aside from what is perceived to be politically feasible.

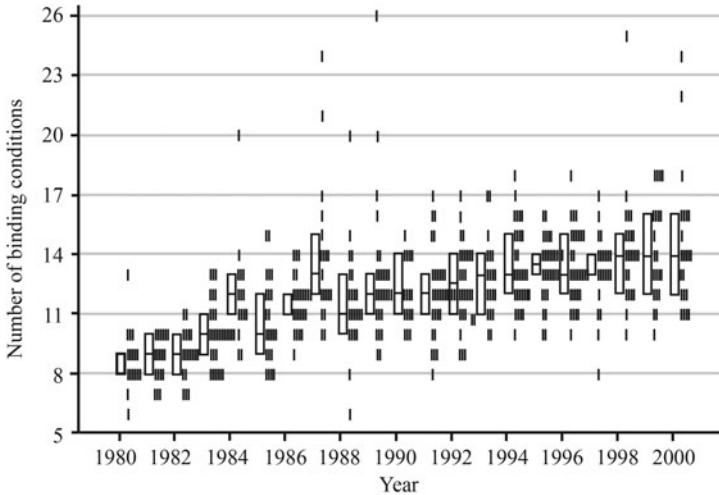


FIGURE 1. *Number of binding conditions in IMF loans*

Enforcement is the IMF’s third policy tool. At regular reviews IMF staff members assess the progress of countries under lending arrangements. If IMF officials find that the borrower has not lived up to the terms of the agreement, the program is suspended and funds are withheld—unless staff members recommend waivers for the missed conditions. Unlike access to IMF resources, which is in principle capped, or conditionality, which is guided by established economic theory and practice, the decision to issue waivers or suspend a program because of noncompliance is entirely based on the staff and management’s subjective assessments of the situation.²⁵

It should be clear from the brief review of the three elements of conditional lending that decision making at the IMF involves a significant degree of judgment. Rules,

25. Jacques Polak, who held positions in the IMF from 1947 to 1986, writes that waivers are issued when noncompliance is “inconsequential.” Polak 1991, 14; see also Woods 2006, 70. The historical record, however, suggests that conditions are waived even when they are missed by a wide margin and are central to the program’s goals; for example, the Fund granted waivers for missed fiscal targets to allow Argentina to draw down a series of loans it signed in the 1990s, despite the fact that fiscal rectitude was integral to the success of the country’s currency board-like monetary arrangement. The Independent Evaluation Office’s report on the Argentine experience noted: “even though the annual deficit targets were missed every year from 1994, financing arrangements with Argentina were maintained by repeatedly granting waivers.” IMF 2004, 4.

where they exist, are ambiguous.²⁶ While the institution has developed some “best practices” with respect to conditional lending, the process is far from routinized. This opens space for preferential treatment (or, less felicitously, biases) to creep into the IMF's decision making.

What Shapes IMF Decision Making?

The possibility that IMF decisions are politically motivated has not escaped the attention of scholars. In the past decade a small literature has sprung up to document and explain patterns of the IMF's preferential treatment of borrowers. This line of research has produced evidence for a variety of biases in the way that the IMF deals with its members.

The standard view is that powerful external actors intervene to shape the terms of access, conditionality, and enforcement in ways that serve their material interests. Stone and Copelovitch have, separately, developed the most sophisticated versions of this explanation. Powerful states like the United States do not want to shape the terms of every decision that the IMF makes with respect to conditional loans.²⁷ The evidence that IMF officials are delegated a high degree of discretion is too strong to ignore.²⁸ During normal times, the IMF's staff and management are allowed to make the decisions. The principals are content to let agents (the IMF's staff of highly trained economists) use the tools at their disposal to tackle difficult problems facing the low- and middle-income countries that have been the institution's main constituency for the past thirty years.

Discretion evaporates when powerful members decide that the borrower requires special treatment. For Stone, the United States mobilizes its extensive diplomatic resources to lobby for better terms when regimes in which it has a strategic interest get into trouble. Copelovitch suggests that geopolitical factors are less important than the interests of major stakeholders' financial communities; when big financial institutions are sucked into crises in the developing world, they lean on their country's representative at the IMF to help arrange generous bailouts. Provided that the other powerful member states do not object, the bankers usually get their way. The underlying assumption of this type of explanation is that discretion is always on loan from member states, because IOs depend on the material and symbolic resources that states provide.²⁹

Others suggest that biases can emerge even when IMF staff and management are relatively unconstrained. An IO that takes its mandate seriously and can resist tampering by external interests might need to adjust its policies to accommodate “special” cases. Just

26. Pop-Eleches 2009, 789.

27. See Copelovitch 2010; and Stone 2008 and 2011.

28. See Barnett and Finnemore 2004; and Stone 2011, 25–26.

29. See Barnett and Finnemore 2004, 22; and Barnett and Coleman 2005, 597–98.

like banks, some countries are simply too big to fail. Pop-Eleches argues that when countries whose economic health is integral to the functioning of the global financial system are plunged into crisis, they can count on special treatment from the IMF.³⁰

The degree of discretion accorded by the institution's principals is one dimension along which explanations for preferential treatment vary. A second dimension concerns the clarity of the choice setting and the motives that guide decisions. In rationalist approaches to the study of IOs, decisions are made on the basis of cost-benefit calculation. Agents optimize by selecting the policy mix that maximizes an expected payoff function.³¹ Stated simply, IOs' choices reflect the logic of expected consequences.³²

Others emphasize the ritual over the rational when it comes to IOs' decision-making processes.³³ The choice settings faced by IOs may be too ambiguous and uncertain to permit optimization by decision makers.³⁴ Instead of following decision rules that maximize expected payoffs, officials fall back on social scripts to guide their choices. Organizational culture supplies the rules that enable staff members to confront problems they encounter as they try to carry out the organization's mandate. Rather than asking whether a policy mix is optimal, decision makers in an IO may ask (perhaps reflexively) whether, given their identity, the action is appropriate in the sense of "matching the obligations of that identity or role to a specific situation."³⁵

A recent wave of research focuses on the cultural life of the IMF and how it shapes the institution's behavior, potentially in ways that produce biased uses of the institution's policy tools. The central theme is that the IMF's recruitment patterns combined with day-to-day assimilation pressures ensure that the institution's ideational culture is dominated by a set of "neoliberal" economic beliefs.³⁶ Sociological approaches to the IMF tend to focus on how beliefs shape the content of the institution's policy positions. Chwioroth, for example, traces the institution's shifting view of capital account liberalization to the replacement of traditional Keynesians by a new cohort of neoliberal economists in the late 1970s. Others have suggested that belief-driven biases are not limited to the substantive content of conditionality: IMF officials might display a preference for working with like-minded officials in borrowing countries.³⁷ Shared beliefs might lead the IMF to adjust all three of the

30. Pop-Eleches 2009; see also Woods 2006, 72.

31. Page 2008, 123. In decision theory terms, decision makers choose from a finite set of possible actions. They know enough about the choice setting to attach payoffs to actions and probability distributions over the states that would occur if the action was chosen. Choices are made by trading off the subjective likelihood of different outcomes occurring against the utility produced by each potential outcome.

32. March and Olsen 1998, 949–52.

33. See March 1991 and 1994; and Barnett and Finnemore 1999, 718.

34. Haas 1990.

35. March and Olsen 1998, 951; see also Barnett and Coleman 2005, 600.

36. See Barnett and Finnemore 2004; Chorev and Babb 2009; Chwioroth 2010; Momani 2005; Vetterlein 2010; and Woods 2006.

37. See Chwioroth 2013; Kahler 1992; and Woods 2006, 72–6. The *Financial Times* observed that the "IMF staff have a predilection for dealing with people like themselves." Alan Beattie, "Dithering Risks Creating the Argentina on the Aegean," *Financial Times* (Internet ed.), 1 July 2011. Available at

aspects of conditional lending (size of loans, binding conditionality, and enforcement) in ways that favor policy teams composed of like-minded economic officials.

TABLE 1. *Four varieties of biased decision making at the IMF*

	Logic of expected consequences	Logic of appropriateness
<i>Low discretion</i>	I Informal governance by powerful principals	II Informal governance by powerful principals
<i>High discretion</i>	IV Preferential treatment for systemically important cases	III Biases of organizational culture

Putting the two dimensions together produces a typological mapping of sources of bias in decision making at the IMF. When the discretion accorded to the IMF's decision makers is low (quadrants I and II in Table 1), the powerful member states take temporary control of the institution, primarily through informal avenues (for example, lobbying), to shape borrowing countries' terms of treatment.³⁸ If many observations lie in either of the top two quadrants one would expect to see negative correlations between measures of the interests of principals and measures of the toughness of IMF treatment.³⁹

In the decision making exemplified by quadrants III and IV in Table 1, IMF officials have significant leeway.⁴⁰ If most observations lie in the bottom left-hand box, preferential treatment would be limited to cases for which special treatment maximizes the institution's expected payoff. These cases may be systemically important countries in crisis (who require especially large liquidity infusions, regardless of their level of compliance).⁴¹ When observations fall in quadrant III, the IMF's culture drives favoritism. One implication is that the IMF rewards policy teams that share the institution's economic beliefs. The statistical analysis demonstrates that a good amount of the variation in IMF treatment can be explained by the degree of ideational match between the IMF and the policy team in the borrowing country.

<<http://www.ft.com/intl/cms/s/0/d171e018-a410-11e0-8b4f-00144feabdc0.html>>, accessed 16 November 2012.

38. Following Stone, I refer to this as "informal governance." Stone 2008 and 2011.

39. If the logic of consequences dominates, we should see evidence that, in their deliberations, IMF officials weighed the costs of preferential treatment (moral hazard) against the benefits (symbolic and material resources provided by the powerful members).

40. Woods and Chwieroth argue that the powerful countries construct the broad framework within which the IMF works, but rarely intervene to shape the details of the institution's activities. See Woods 2006; and Chwieroth 2010.

41. Pop-Eleches 2009. Copelovitch suggests that the composition of a country's external debt shapes IMF treatment in predictable ways: when debt is primarily composed of privately held bonds, the optimal policy mix is a large loan with many conditions (both are needed to send a strong signal to far-flung investors). Copelovitch 2010.

Why Shared Beliefs Matter

The IMF's ability to achieve its goals in borrowing countries is not simply a matter of correctly diagnosing the problems and convincing policy-makers to take steps to correct the distortions. The IMF's officials have to contend with unpredictable economic and—in particular—political dynamics that can drive programs off course. When the IMF is asked by policy-makers in member countries to make its resources available in exchange for policy changes, the prospective borrower is typically experiencing severe economic distress. In unstable (and frequently opaque) situations the IMF's officials face some difficult questions: Will the institution's resources be used prudently? Will the reforms be sustainable? Will the program succeed? Answering these questions forces the IMF's staff and management to wade into murky political waters.

Evidence for uncertainty confronting the IMF comes from an internal staff review of the implementation of structural adjustment programs.⁴² Programs were interrupted because of noncompliance in twenty-eight out of thirty-six developing countries that signed concessional loans between 1986 and 1994. Less than a quarter of the arrangements signed during the period were completed without significant deviations.⁴³

If the IMF could compute the risk that its programs will fail in different settings with a reasonably high degree of accuracy, then its decisions could be made purely on the basis of rational calculation. But the ability of the institution's staff and management to calculate the prospects for program success is limited, due in large part to the unpredictability of the processes that shape economic policy-making. The IMF has not developed a way to systematically assess the prospects for programs in varying political and institutional environments among borrowing countries.⁴⁴ Claudio Loser, who began his career at the IMF in 1972 and directed the Western Hemisphere Department from 1994 to 2002, acknowledges that at the IMF "all decision analysis occurs in uncertain contexts."⁴⁵

Uncertainty notwithstanding, IMF officials have to make choices about the best use of the institution's policy tools. The objective probability that a lending program will succeed or fail is unknown, but IMF decision makers have subjective beliefs about that likelihood. Policy-makers in the borrowing country also have prior beliefs about the probability that the IMF's proposed arrangement will succeed or fail. Different economic ideas may drive the priors of the IMF and the borrowing government far apart.⁴⁶ Sometimes prior beliefs diverge because the policy

42. IMF 1997.

43. Caraway, Rickard, and Anner 2012, 36.

44. Kahler observes that "the institutional memory of the IFIs [International Financial Institutions] regarding the politics of adjustment episodes is very short; there is little systematic attention to collecting or making available to their staffs the political lessons of particular programs." Kahler 1992, 121.

45. Quoted in Tenenbaum 2004, 116 [my translation]. Claudio Loser's surname is pronounced LOH-ser.

46. With different priors agents may look at identical data and still come to divergent conclusions. Van den Steen 2010, 1722.

team⁴⁷ is composed of noneconomists: “Fund staff are often frustrated because non-experts do not see the wisdom of their advice. They believe that people would be more willing to accept Fund advice if they understood the economic logic undergirding these stabilization programs.”⁴⁸ There is evidence that the similarity of professional economists’ beliefs depends on where they were trained.⁴⁹ Policy-makers and the public in the developing world often express skepticism, if not outright hostility, toward the neoliberal economic ideas held by IMF officials.⁵⁰

Van den Steen’s baseline model of the dynamics of firm-level project management can illustrate how shared beliefs affect the IMF-borrower relationship. I use some simple elements of the model in this study to give more structure to the argument.⁵¹ Policy action ρ_L (in this case, adopting the package of policies in a typical conditional lending arrangement) is assumed to offer some payoff $Z > 0$ if it succeeds and 0 if it fails. The probability of success is unknown ($\rho_L \in [0,1]$) but both sides have priors about that probability. The sides have different expected values for ρ_L based on their economic beliefs (denoted by $r_{L,i}$ for the IMF and $r_{L,g}$ for the government).

Van den Steen’s model provides a very straightforward way of thinking about belief similarity: it is simply the distance between the means of the beliefs of i (the IMF) and g (the borrower):

$$\delta_{i,g} = |r_{L,i} - r_{L,g}|.$$

Belief dissimilarity is increasing in $\delta_{i,g}$. As the measure of belief dissimilarity approaches 1, the probability that the two sides would follow the same policies approaches 0—in this situation, the IMF and the borrowing government are in open disagreement.

The implications from Van den Steen’s model can be extended to the issue of conditional lending. His model suggests that managers delegate more important decisions to employees who share the managers’ beliefs and expend less effort to monitor like-minded employees.⁵² Recall that limiting access and increasing the scope of conditionality are ways of constraining a borrower’s policy discretion in order to safeguard the institution’s resources. If the IMF’s staff members think that

47. “Policy team” is shorthand for the key economic authorities that the IMF deals with when it is negotiating a loan agreement—typically, the finance minister and the central bank governor. See Barnett and Finnemore 2004, 56; Woods 2006, 77; and Vetterlein 2010.

48. Barnett and Finnemore 2004, 63.

49. For a fascinating discussion of the differences between the economics profession in the United States, UK, and France, see Fourcade 2009. Fourcade presents evidence from surveys administered to professional economists in different countries that illustrate a large degree of disagreement—rather than consensus—on a range of basic economic principles. *Ibid.*, 6.

50. See Di Tella and MacCulloch 2009; and van de Walle 2001.

51. In Van den Steen the model pertains to corporate culture and is used to derive predictions about the positive and negative effects of homogenous beliefs within firms. I simplify the baseline model for illustrative purposes. Van den Steen 2010.

52. According to Van den Steen, “the intuition for the result is that as the manager and employee have more different beliefs, the employee is more likely to make the wrong choice from the manager’s perspective.” *Ibid.*, 1724.

the policy team responsible for carrying out the terms of the loan can be trusted to do the right thing (if $\delta_{i,g}$ is small), then it will lend more freely and attach fewer conditions to the loan. The IMF will also devote fewer resources to monitoring and enforcing conditions when dealing with teams of like-minded policy-makers.

Readers who interpret the interaction between the IMF and its borrowers as an agency problem might reasonably ask how my explanation differs from conventional principal-agent (PA) models. While my approach focuses on beliefs in the presence of uncertainty, PA focuses on the alignment of the interests of the principal and the agent. Conceptually, beliefs and interests are distinct. The origins of interests are typically posited to lie in material payoffs; for example, a government might resist conditions that threaten politically important groups that prefer the (economically inefficient) status quo. A central contention of behavioral decision theory, by contrast, is that the origin of beliefs lies in heuristics, stories, and mental models.⁵³ The approach here centers on the degree to which the actors genuinely agree or disagree rather than the conflicts of interest that characterize PA-type models.⁵⁴ Conceptual issues aside, some of this article's results are hard to explain with the PA approach (an issue discussed in greater detail soon).

Evidence for the IMF's Neoliberal Culture

In order to test the argument, one needs a way to measure the distance between the beliefs of the policy team and the IMF. As I noted, many observers assert the IMF's culture is defined by a widely shared set of neoliberal economic beliefs. The theoretical core of neoliberalism is a revived version of classical liberal economics. Three assumptions are widely shared within the consensus, namely that: the market is the most efficient mechanism for allocating scarce resources; free exchange of goods across borders is welfare improving; and market actors have rational beliefs.⁵⁵ Three policy recommendations flow from these assumptions: governments should, in general, pursue fiscal discipline; a country's economic orientation should be outward; and countries should rely on markets for the allocation of goods and resources and for the setting of prices.⁵⁶

Ideational consensus at the IMF is driven by the institution's operational culture and recruitment practices. The IMF looks like a Weberian bureaucracy: individual and institutional goals are closely aligned, and authority relationships are rigidly hierarchical.⁵⁷ The pressure to conform is intense; as Rogoff, former head economist at

53. Fox and See 2003, 288–90.

54. For an illustration of the costs of conflating beliefs and interests, see Van den Steen 2010, 1730–32.

55. I have adopted the three assumptions from Hay's more extensive list of characteristics of economic neoliberalism. Hay 2007, 54. These claims were almost universally supported in Colander and Kramer's and Colander's surveys of PhD students in economics departments at University of Chicago, Harvard University, MIT, and Stanford University. See Colander and Kramer 1987; and Colander 2005.

56. van de Walle 2001, 140.

57. See Chwieroth 2010, 34–40; Vetterlein 2010; and Woods 2006.

the IMF, observes, “fundamentally most people in the Fund believe in markets and market-based solutions to problems.”⁵⁸ Many of the institution’s top officials are drawn from a handful of highly ranked American economics departments that serve as incubators for neoliberal ideas. Consider the view from Raghuram Rajan, economic counselor and head of the IMF’s research department from 2003 to 2006:

Many of these multilateral organisations are dominated by US trained economists, and certainly when I was at the Fund I heard again and again countries like France saying there’s a French view of things, why does it have to only be the US view from economists, no doubt from all over the world, but trained in the US?⁵⁹

To indirectly measure the homogeneity of beliefs at the institution, I obtained biographical data from the IMF’s archives on 983 appointments to top-level positions between 1980 and 2000.⁶⁰ The data reveal that the profile of senior officials is remarkably similar for an institution that counts 188 countries as members. Nearly half (47 percent) of the appointees in the data set received a graduate degree from a highly ranked American economics department.⁶¹ The degree of similarity is further illustrated by the fact that a relatively small number of universities supplied the vast majority of the senior American-educated economists at the IMF.⁶²

These data obscure the degree of variation between the institution’s departments. The five regional departments are primarily responsible for loan negotiations with member states. [Figure 2](#) displays the proportion of top-level appointees in each regional department that received a graduate degree in economics from a top-thirty ranked American university.

In two regional departments—the Western Hemisphere and Africa—the majority of top officials were trained in the economics departments that were most likely to

58. Quoted in Alan Beattie, “IMF Succession: A Contested Quandary,” *Financial Times* (Internet ed.), 25 May 2011. Available at <<http://www.ft.com/intl/cms/s/0/07ca28e0-8702-11e0-92df-00144feabdc0.html>>, accessed 16 November 2012.

59. *Financial Times* (Internet ed.), 1 November 2010. Available at <<http://www.ft.com/intl/cms/s/0/9671f282-e5bb-11df-b023-00144feabdc0.html>>, accessed 16 November 2012.

60. Many officials cycled through different senior positions during their tenure at the IMF; consequently the number of appointments (983) exceeds the number of individuals (467) that appear in the data set.

61. My strategy for selecting the top departments was to compare a large number of different rankings over the past thirty years—the approach showed that while the ranking of different departments can vary widely in terms of placement on the list, there is consistency in terms of the universities that are ranked somewhere within the top thirty over time and across rankings. I surveyed a number of rankings of economics departments in the United States. See Davis and Papanek 1984; Dusansky and Vernon 1998; Graves, Marchand, and Thompson 1982; Hirsch et al. 1984; Hogan 1984; and Scott and Mitias 1996.

62. Nearly 80 percent of the American-trained senior officials in the appointee data set received their training from one of thirteen universities. These universities were, in order, the University of Chicago (11 percent), Harvard University and Columbia University (10 percent each), Yale University (8 percent), University of Pennsylvania (7 percent), George Washington University (6 percent), Johns Hopkins University (5 percent), University of Maryland and Stanford University (4 percent each), and MIT, University of California, Berkeley, University of Rochester, and Princeton University (3 percent each).

transmit neoliberal economic ideas. Countries that lie within the purview of the two regional departments were also the locus of IMF activity in the years between 1980 and 2000: 71 percent of the conditional loans doled out during this period went to a country in one of the two regions.

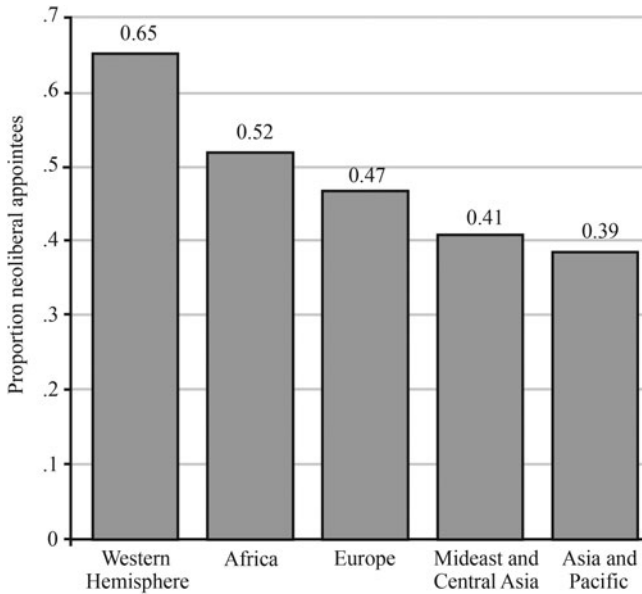


FIGURE 2. *Proportion of neoliberal appointees by area department (1980–2000)*

Combining the evidence of the IMF's ideational culture with the arguments about how shared beliefs influence delegation and monitoring yields three testable hypotheses. I expect to find that as the proportion of neoliberals in the borrowing government increases:

1. The relative size of loans will increase.
2. The number of binding conditions in programs will decrease.
3. The IMF will be more likely to issue waivers for noncompliance.

Data and Methods

Until recently researchers could not systematically test competing explanations for variation in IMF treatment because loan documents were confidential. Taking advantage of the opening of the IMF's archives, I collected documents that outline the terms of agreements, including the size of the loan, the phasing of disbursements, binding and nonbinding conditions, and policy commitments and goals set out by the

country's economic authorities.⁶³ The data set consists of the terms of 486 separate agreements signed between 1980 and 2000.⁶⁴

I use an imperfect but defensible measure of the extent of conditionality: I count the number of binding conditions included in each program.⁶⁵ I measure the second aspect of IMF treatment, the generosity of its funding packages, as the size of the loan as a percentage of the country's quota. Because these data are skewed to the right by some extremely large loans, I use the natural log of loan size/quota in the statistical analysis. The loan size regressions include data from 1984 to 2000.⁶⁶ Many programs from 1980–83 exceeded the 300 percent of quota cap for the simple reason that quota increases had failed to keep pace with borrowers' financing needs.⁶⁷ The quota revisions came into effect on 30 November 1983.

To measure enforcement, I gathered the decisions by the IMF's Executive Board to approve waivers for noncompliance between 1980 and 1997.⁶⁸ The measure of enforcement is a dichotomous variable that takes a value of 1 when a waiver is approved by the Executive Board, and 0 during other years when a program is active and a waiver has not been issued.

In order to test my argument against the alternatives, it is necessary to develop a variable that captures the economic ideas held by policy-makers. The strategy adopted here focuses on experiences that are likely to transmit neoliberal economic beliefs to individual economic policy-makers. Two socializing experiences are regarded as particularly important transmission mechanisms.

63. When agreement is reached officials produce two documents (the letter of intent and memorandum of understanding) that are submitted to the Executive Board for approval. These documents outline the terms of the agreement. The data set includes each of the conditional lending facilities: Standby Arrangements (SBA), Extended Fund Facilities (EFF), Structural Adjustment Fund (SAF), Enhanced Structural Adjustment Fund (ESAF), and Poverty Reduction and Growth Facility (PRGF).

64. I selected the decades between 1980 and 2000 as the time frame for the statistical analysis for two primary reasons: (1) the IMF's general approach to conditional lending in the developing world was solidified after the 1979 review of conditionality; and (2) the period between the debt crises of the early 1980s and financial crises of the late 1990s marks the era of the IMF's most sustained and active involvement in developing countries through its lending facilities.

65. The loan size and conditionality variables are recorded for each country for the year in which the agreement was approved. This is akin to taking a snapshot of the content of the program when it was formulated, and it is the most common way to organize data on IMF treatment. See Copelovitch 2010; and Gould 2006; but see Stone 2008 and 2011. My coding procedure for the number of conditions yields counts that are very similar to Gould 2006. Copelovitch's data set records fewer conditions per program—most likely because he groups subconditions (for example, several conditions related to the level of reserves) together, whereas I count them separately. I replicated the models of the determinants of conditionality in this article using Copelovitch's smaller data set and found similar results (reported in the supplementary appendix). Copelovitch 2010.

66. The results do not change very much when the regressions include data over the entire twenty-year period, even though 1984 marks a structural break in the time series. The key variable remains positive and significant (though smaller in size). These results are reported in the supplementary appendix.

67. Quota contributions had not been significantly revised since 1963. IMF 2000. Sixteen programs signed between January 1980 and March 1983 exceeded 300 percent of quota.

68. At the time of data collection, the minutes of Executive Board meetings were released to the archives with a ten-year lag—hence the earlier end date for the waivers data set.

The first is the educational background of policy-makers. A number of researchers provide evidence that graduate training in economics “is a transformative experience for doctoral students that creates strong professional identities.”⁶⁹ It is widely recognized that mainstream American economics departments shaped the neoliberal consensus. Consequently, I code policy-makers as neoliberal if they earned a master’s degree or above from a highly ranked American economics department.⁷⁰

Policy-makers who have sustained experience within the IMF and the World Bank are also coded as holding neoliberal beliefs.⁷¹ While neoliberal economists are a less dominant presence within the World Bank, owing largely to the Bank’s more expansive mandate in developing countries, it too remains a center for neoliberal thinking.⁷²

The data collection effort resulted in a data set consisting of the entry and exit dates and biographical details for more than 2,000 policy-makers in ninety countries observed between 1980 and 2000.⁷³

Testing the first observable implication of the argument requires a measure of the relative influence of neoliberal policy-makers in developing countries. The variable I create (referred to hereafter as *PROPORTION NEOLIBERAL*) is an index that attempts to capture the ideational coherence of the policy team:

$$\text{PROPORTION NEOLIBERAL} = \frac{\text{Number of neoliberals in top policy-making positions}}{\text{Number of top economic policy-making positions}}$$

The Letter of Intent that specifies the terms of IMF agreements is signed by each country’s top-ranking economic officials; I used these documents, recovered from the IMF’s archives, to identify the important policy-makers for each country. The policy team thus consists of the officials who sign the IMF agreements plus the head of government. *PROPORTION NEOLIBERAL* ranges in value between 0 (no neoliberals in important economic policy positions) and 1 (a fully unified policy team in

69. Kogut and Macpherson 2008, 114. See also Chwieroth 2007 and 2013; and Fourcade 2006. Reflecting on this research, Colander writes that “the replicator dynamics of graduate school play a larger role in determining economists’ methodology and approach than all the myriad papers written about methodology.” Colander 2005, 175. See Colander and Klamer 1987; Colander and Brenner 1992; Colander 2005; and Klamer and Colander 1990.

70. See fn. 61.

71. By sustained experience I refer to employment in either the Fund or Bank in a position involved in the day-to-day operations of the institution. It is important to make this distinction because many policy-makers are appointed as their country’s representative on the IMF’s Board of Governors, which only meets once per year. These fleeting, mainly symbolic experiences with the institutions are unlikely to have the kind of socializing effect that deep involvement in the institution as a staff member, advisor, or Executive Director imparts.

72. A 1991 World Bank survey of employment in the policy, research, and external affairs departments revealed that 80 percent of senior staff received their training in economics departments in either the United States or the UK. Woods 2006, 53.

73. The supplementary appendix that accompanies the article contains information on the sources I used to collect policy-makers’ biographical details.

which neoliberal economists occupy each of the top policy positions).⁷⁴ The analysis includes a number of other covariates.

Technocratic variables. If technocratic considerations dominate the design of IMF programs, treatment by the IMF should be proportional to the depth of the economic problems facing the borrower. Two indicators measure the severity of the external economic constraints: international reserves as a percentage of external debt and debt as a percent of gross national income. I also include the growth rate of gross domestic product (GDP) per capita and the natural log of GDP.

Perhaps neoliberal officials are more likely to be observed in countries that have pursued market liberalization. Failure to control for the degree of economic reform would then overstate the impact of ideational proximity. I take this possibility seriously and try to account for the problem by including several different measures of policy liberalization alongside *PROPORTION NEOLIBERAL*. In the model reported in this article I rely on a dichotomous measure of trade liberalization.⁷⁵ The supplementary appendix reports results that include measures of capital account openness, financial market liberalization, and product market liberalization. The main results are unaffected by the inclusion of different indicators of policy liberalization.

Several other indicators of economic conditions are included in the analysis. Previous research has linked compliance with binding conditions to inflation and government consumption; consequently, these measures are included in the models of waivers.⁷⁶

Intra-institutional variables. Intra-organizational politics and routines are expected to influence the behavior of the IMF. Barnett and Finnemore suggest that the expansion of conditionality is a consequence of the IMF's progressive elaboration of the monetary approach to balance of payments crises "to incorporate more and more aspects of domestic life into its stabilization programs."⁷⁷ Consequently I include a counter variable that starts at 0 in 1980.⁷⁸

74. Neoliberal economists that have claimed the top policy positions in low- and middle-income countries are a relatively rare breed: out of the entire sample of finance ministers and central bankers (ninety developing countries, 1980–2000), my coding procedure identified just under 200 episodes in which the position was held by an official with neoliberal credentials. Forty-four percent of the neoliberals attended one of five universities (Yale University, Harvard University, and the Universities of Chicago, Pennsylvania, and Wisconsin). Twenty percent had significant experience within the IMF. Only fourteen leaders (out of a total of 462 leaders observed in the twenty-year time window) had neoliberal backgrounds.

75. Wacziarg and Welch 2008. The *LIBERALIZED TRADE* indicator is robustly correlated with international investors' evaluations of the creditworthiness of developing countries. Nelson 2010.

76. See Stone 2002. Domestic credit creation and budget outlays are typical targets that, if exceeded, would force a program off course if a government could not obtain a waiver. I use the measures of inflation and government consumption in their place because data on domestic credit and budgeting are unavailable for many countries. Both variables are drawn from the World Development Indicators. World Bank 2012.

77. Barnett and Finnemore 2004, 71.

78. To account for time dependence in the logit model of the determinants of waivers, I include three natural cubic splines. Beck, Katz, and Tucker 1998.

Two additional variables account for bureaucratic aggrandizement.⁷⁹ As global financial conditions worsen, the interest rate subsidy provided by the IMF (since interest on its loans is for most borrowers below market rates) becomes more attractive, enabling the staff to increase both lending and conditionality. The IMF should be tougher in enforcing conditions when alternative sources of funding for borrowers are scarce. As a measure of global financial conditions I include the annual nominal US Treasury bill rate. I also include a measure of the total annual use of IMF credit and administrative resources as a percent of the total quota of the IMF provided by the institution's members. This is an indicator of the general demand for IMF resources and should be positively correlated with conditionality and negatively related to the amount of funding disbursed.⁸⁰

Extra-institutional variables. I use two measures to account for a borrower's strategic importance to the most powerful influential member of the IMF, the United States. First, Stone argues that political significance is indicated by the flows of foreign aid.⁸¹ I include a variable that records annual (logged) American military aid and grants.⁸² Dreher and Jensen suggest that voting in the United Nations General Assembly (UNGA) is a better variable to measure the effect of geopolitical interests on the IMF's behavior.⁸³ The similarity of voting profiles in the UNGA is used as an indicator of the closeness of a borrower and powerful state in a number of studies of the IMF.⁸⁴ The measure I use captures the similarity of a borrower's and the US's voting decisions on UNGA resolutions. The variable (*US AFFINITY*) ranges from -1 to 1, with higher values indicating closer relations.⁸⁵ If the United States intervenes in the IMF's lending behavior, one should observe that friendly, politically influential countries receive bigger loans with fewer conditions and are more frequent recipients of waivers.

To capture the impact of financial interests on IMF treatment, I create a dichotomous variable that is coded positively when a Paris Club sovereign debt restructuring agreement was reached in the six months preceding or following the initiation of an

79. Dreher and Vaubel 2004.

80. The fact that the IMF makes decisions about conditionality and loan size jointly suggests that the number of conditions should be a covariate in the loan size model, and vice versa. Ray warns that the inclusion of a covariate that intervenes between the key explanatory variable and the outcome, however, can generate misleading estimates (and the results indicate that some of the impact of the key variable will be channeled through the measures of loan size and conditionality). Ray 2003. Yet the size of *PROPORTION NEOLIBERAL* coefficient is slightly larger when loan size is included as a covariate in the conditionality model and conditionality is included as a covariate of loan size (see the supplementary appendix for results).

81. See Stone 2002, 2004, 2008, and 2011.

82. USAID 2012.

83. Dreher and Jensen 2007.

84. See Barro and Lee 2005; Oatley and Yackee 2004; and Thacker 1999.

85. Gartzke 2006.

IMF program.⁸⁶ I expect that these are periods in which creditors are both more interested in the content of IMF programs and better organized than usual.⁸⁷ Many, but not most, loans are accompanied by Paris Club agreements.⁸⁸

Domestic institutional variables. Several domestic political variables aside from the presence of neoliberals might influence IMF treatment. The literature on the economic effects of the electoral cycle suggests that governments are more prone to adopt irresponsible policies in the period preceding elections. An internal review by the IMF staff identified pre-election dynamics as an important cause of deviations from binding conditions in at least six major programs in the 1980s and 1990s.⁸⁹ If this is the case, the IMF should be tougher on countries before elections.⁹⁰ On the other hand, in the “honeymoon” period following an election the IMF might be more lenient on the new government. To measure the electoral cycle, I used the World Bank’s Database of Political Institutions (DPI) to gather the dates of elections in countries in the sample. Since political business cycles should be present in competitive elections only, I included elections with multiple candidates/parties only (denoted by a score of 5 or above in the DPI’s electoral competitiveness index). Two dichotomous variables were generated from this process: an indicator that takes a value of 1 if a legislative or executive election is scheduled in the next six months (PRE-ELECTION), and an indicator for elections that occurred in the previous six months (POSTELECTION).⁹¹ In the model of waivers the ELECTION indicator takes a value of 1 if there was a competitive election in year t .

Partisanship may influence the design of programs. Some accuse the IMF of conservative bias in its lending behavior.⁹² To measure the effect of partisan dynamics, I include an indicator of left-wing governments.⁹³ The effects of three other domestic institutional variables are examined. Vreeland argues that executives might seek to bring in the IMF when there are many veto players that can prevent policy change;

86. Creditor countries organize Paris Club negotiations, but the “comparability of treatment” clause extends the terms of restructurings to outstanding private debt.

87. Gould 2006. I also ran the models of conditionality and loan size with a measure of G5 bank exposure (drawn from Copelovitch 2010) as a covariate (see the supplementary appendix).

88. Van der Veer and de Jung report that Paris Club agreements accompanied 45 percent of loans signed between 1987 and 2004. Van der Veer and de Jung 2006.

89. IMF 1997.

90. Dreher provides evidence that program interruptions are more frequent around elections. Dreher 2004.

91. Beck et al. 2001. I ran analyses with separate indicators for legislative and executive elections, and experimented with different lengths of time for pre- and postelection variables; the results did not change significantly in the alternative specifications.

92. My argument about ideational proximity is distinct from claims that the IMF displays “rightist bias.” While competing ideas about economic policy may line up along partisan lines, this is not always the case; as Miguel Centeno writes, “rather than sharing an ideology, technocrats may be seen as sharing a mentality or cognitive framework.” Centeno 1993, 312.

93. The Database of Political Institutions records the political party of the chief of government and the largest party in government. I code the variable as 1 when either the executive or the largest party in the governing coalition is recorded as a left-wing party. Beck et al. 2001.

on the other hand, the IMF might be tougher with countries with many veto players because ambitious reforms are less likely to be carried out in these cases.⁹⁴

The effect of regime type on IMF treatment is controversial. Vreeland suggests that the IMF might prefer negotiations with dictatorships, which can more readily commit to and carry out tough conditions.⁹⁵ On the other hand, the “democratic commitment” literature emphasizes that democracies can more credibly commit to policies, which suggests that the IMF would be more generous in its treatment of democratic regimes.⁹⁶ Regime type is measured via the Polity2 score.⁹⁷ To account for the possibility that the IMF is more likely to issue a waiver for countries experiencing political instability, I include a variable (INSTABILITY) that equals 1 if the Polity2 regime type indicator changes (in either direction) by at least three points during a three-year period.⁹⁸

I use several estimation procedures because of the different properties of the data on IMF treatment. For the total number of binding conditions, I specify Poisson models with robust standard errors clustered by country. To test the determinants of the size of loans, I estimate Prais-Winsten models with panel-corrected standard errors and an AR(1) correction.⁹⁹ The models do not include country or year fixed effects.¹⁰⁰ Finally, when the dependent variable measures whether a country under an IMF program receives a waiver I estimate logit models with robust standard errors clustered by country.¹⁰¹ Most of the explanatory variables are lagged by one year to reduce simultaneity bias.¹⁰²

Results

Coefficients and confidence intervals from the conditionality regression are reported in [Figure 3](#) ($N = 436$). The results confirm that policy teams staffed with neoliberal

94. Vreeland 2003. The indicator comes from Keefer and Stasavage 2003.

95. Vreeland 2003, 88.

96. For example, Schultz and Weingast 2003.

97. Marshall and Jagers 2007.

98. Fearon and Laitin 2003.

99. Beck 2001.

100. Including fixed effects washes out the effects of slow-moving variables and does not allow me to estimate cross-sectional variation in the key covariate, PROPORTION NEOLIBERAL. As an alternative to country fixed effects, following Copelovitch and Stone, I ran each of the statistical models with five regional dummies (sub-Saharan Africa, Latin America and the Caribbean, Eastern Europe and Central Asia, and the Middle East and North Africa—South Asia was the omitted reference category). See Copelovitch 2010 and Stone 2011. Including regional fixed effects did not affect the findings reported in the next section. Results with region dummies are reported in the supplementary appendix.

101. The results for the waivers regressions include regional fixed effects because their inclusion improved the model fit. Full results with region dummies and the three cubic splines are reported in the supplementary appendix.

102. Since I have the date of approval for all the programs signed by the IMF and a borrower, I can identify the period of the year in which the program was concluded. For more accurate estimates, when a program is signed in December I include data for the year of the observation; otherwise, covariates (save for PROPORTION NEOLIBERAL) are lagged by one year.

officials get better treatment: controlling for a range of different explanations, the PROPORTION NEOLIBERAL variable is negative and highly significant. Figure 4 provides a substantive interpretation of the variable's impact on IMF conditionality based on the results reported in Figure 3. The figure shows the predicted number of conditions in a program when the explanatory variables are held constant and the proportion neoliberal measure is allowed to vary.¹⁰³

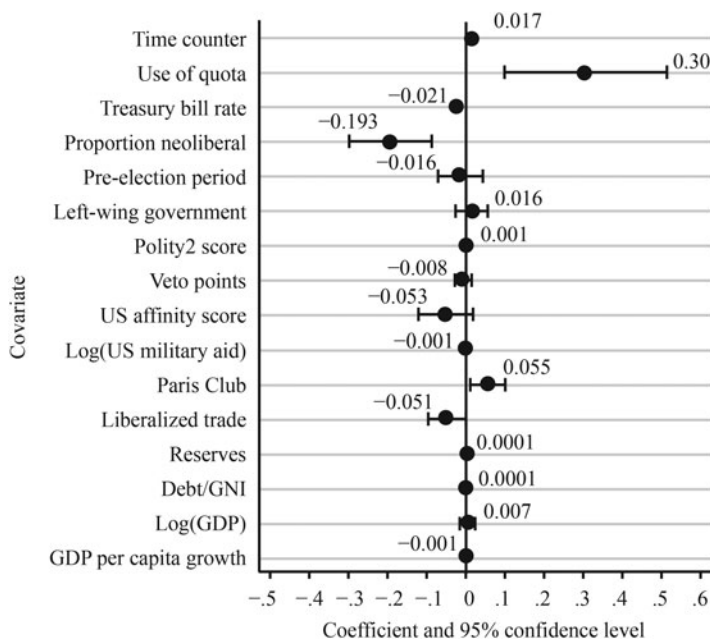


FIGURE 3. Covariates of number of binding conditions in IMF agreements (1980–2000)

As the proportion of the government occupied by neoliberals incrementally increases the predicted number of conditions decreases. Moving from a government with no neoliberals to a unified neoliberal government shaves approximately two conditions off lending programs.

Several other factors influence the extent of conditionality included in the loans in my data set. The IMF becomes tougher when its resources are in demand; increasing the value of the total use of IMF resources from its minimum to maximum value leads to slightly more than one additional condition. For each five-year period that passes, another condition is added to the typical agreement. Contrary to expectations, a

103. All covariates other than PROPORTION NEOLIBERAL are held at their mean values. Marginal effects are calculated using Clarify. Tomz, Wittenberg, and King 2001.

four-point increase in the nominal Treasury bill rate leads to one less condition per program, on average. There is little evidence to suggest that measures of domestic political conditions,¹⁰⁴ the interests of powerful actors, or systemic importance (indicated by logged GDP) are systematically correlated with conditionality.

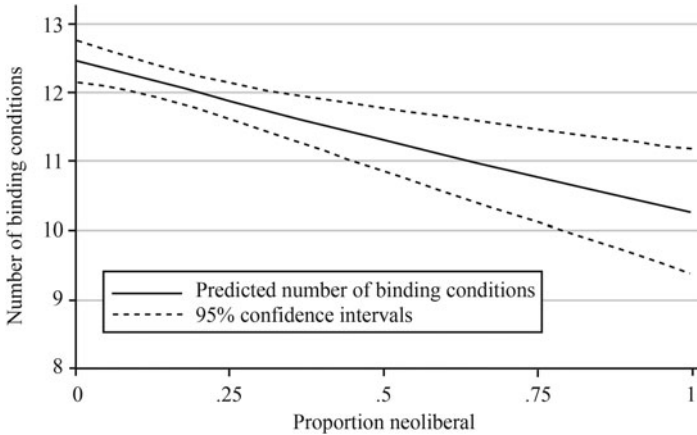


FIGURE 4. Predicted number of binding conditions as proportion neoliberal changes

Results from the loan size regression are given in Figure 5 ($N=375$). They provide additional evidence to support the argument that the IMF is biased in favor of governments with neoliberal economic policy-makers. The substantive relationship between loan size and PROPORTION NEOLIBERAL is large: a one standard deviation increase in the PROPORTION NEOLIBERAL variable is associated with a 12 percent increase in relative loan size.¹⁰⁵

Other patterns are revealed in the loan size regression. Economic crises in large countries can destabilize the global economic system, and the findings show that the IMF takes the threat seriously by consistently giving larger loans to bigger countries.¹⁰⁶ The IMF is sensitive to borrowers' financing requirements: the

104. The trade liberalization covariate is negative and significant, though substantively small. Controlling for the quality of the domestic policy environment is important because it might covary with the presence of highly educated policy-makers. It is possible that the appointment of neoliberal policy-makers is simply an artifact of the quality of a country's bureaucracy. Well-governed countries would presumably be given more discretion by the IMF. The inclusion of the Polity2 score, which is highly correlated with existing measures of bureaucratic quality and is positively correlated with the education level of countries' leaders, should allay this concern. Besley and Reynal-Querol 2011. I also ran models with Morrisson and Murtin's measures of country-level education attainment. Morrisson and Murtin 2009. Controlling for average years of education does not change the key result. The additional results are found in the supplementary appendix.

105. The average loan size is 78.4 percent of quota; a 12 percent increase would inflate the loan to 87.9 percent of quota. The coefficient implies that a full one-point increase in PROPORTION NEOLIBERAL is associated with a 65 percent increase in relative loan size (78.4 to 129.4 percent of quota).

106. Pop-Eleches 2009.

RESERVES covariate is negatively signed and significant ($p = 0.007$); the point estimate suggests that a one standard deviation increase in the level of reserves is associated with a 6 percent decline in the average loan.¹⁰⁷ Political factors also matter. Borrowers in the postelection “honeymoon” period are rewarded with loans that are 25 log points, or 29 percent, larger on average.

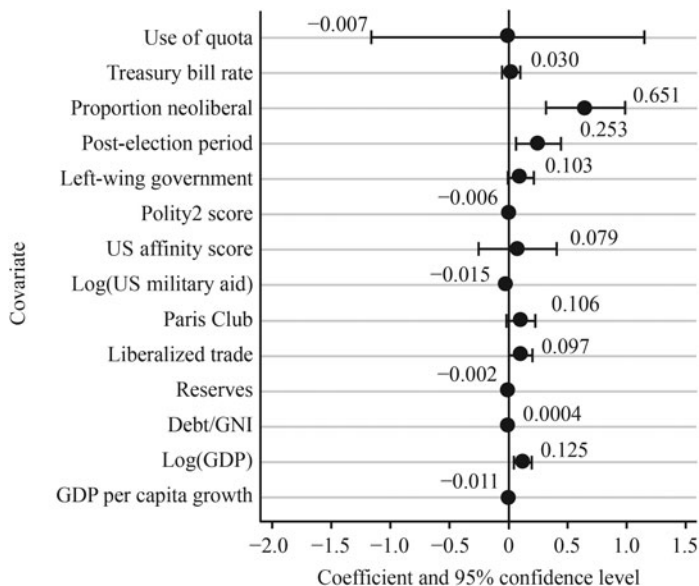


FIGURE 5. Covariates of relative size of IMF loans (1984–2000)

Figure 6 reports the results of a logistic regression when the dependent variable is the issuance of a waiver that allows a country to continue its program despite missing one or more binding conditions ($N = 682$). Because the waivers data set includes not just the year in which a program was signed but all years in which a program is active, I measure PROPORTION NEOLIBERAL annually.¹⁰⁸ Only a few variables are statistically significant determinants of waivers.¹⁰⁹ Countries that are more democratic (indicated

107. I ran the model with two other indicators for borrowers’ financing requirements—the current account balance and the presence/absence of a currency crisis—the inclusion of which did not change the main findings (see the supplementary appendix).

108. Data on the dates of entry into and exit from office allowed me to reconstruct the makeup of the policy team (plus the executive) in each year for each country. If the finance minister, central banker, and planning minister signed an agreement in 1980, the policy team for that country consists of the occupants of those three positions (plus the executive) for all years during which that program remained active, unless one of the positions is eliminated.

109. The coefficients for the regional dummies (reported in the online appendix) indicated that waivers were significantly more common for post-Communist countries and Middle Eastern/North African borrowers.

by higher Polity2 scores) and have higher consumer price inflation are more likely to secure waivers, while fewer waivers are given to left-wing governments.¹¹⁰

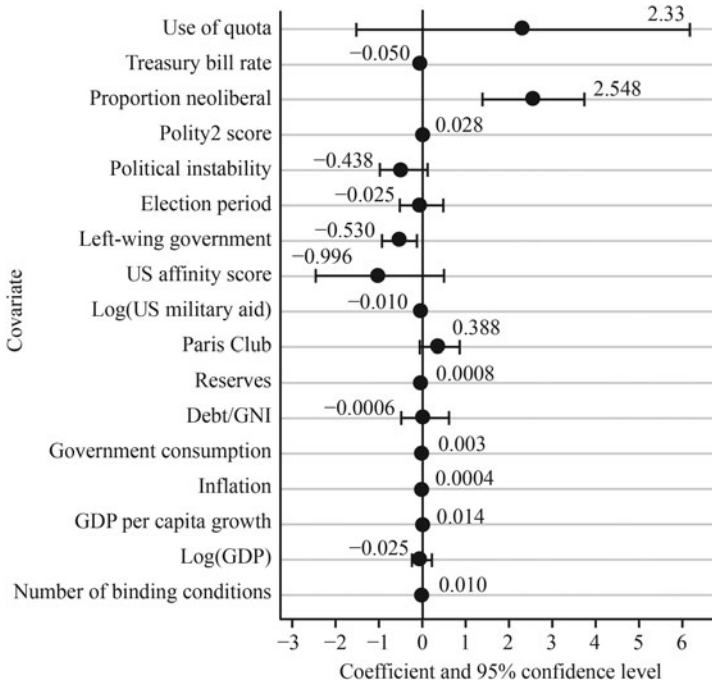


FIGURE 6. Covariates of waivers (1980–1997)

The most powerful influence on the distribution of waivers is the presence of neoliberal economic policy-makers in the borrowing government. As the proportion of the economic policy team occupied by neoliberals increases, countries under active lending programs become increasingly likely to receive waivers. Figure 7 shows the substantive impact of changing proportions of neoliberals in government on the predicted probability that waivers for noncompliance with program dictates will be issued.¹¹¹ The figure indicates the dramatic effect of changes in the PROPORTION NEOLIBERAL measure on the likelihood that the IMF will overlook noncompliance by a borrowing government: unified neoliberal policy teams are approximately 50 percent more likely to receive a waiver than economic policy teams with no neoliberal officials.

110. Because I observe only whether a waiver was granted or not while a country was under an active program, I cannot distinguish whether this was because the IMF was less likely to propose and approve waivers for leftist governments or because those governments were more likely to comply with conditions in the first place.

111. As in Figure 4, all the covariates (save for PROPORTION NEOLIBERAL) are set at their mean value, and Clarify is used to compute predicted probabilities and confidence intervals.

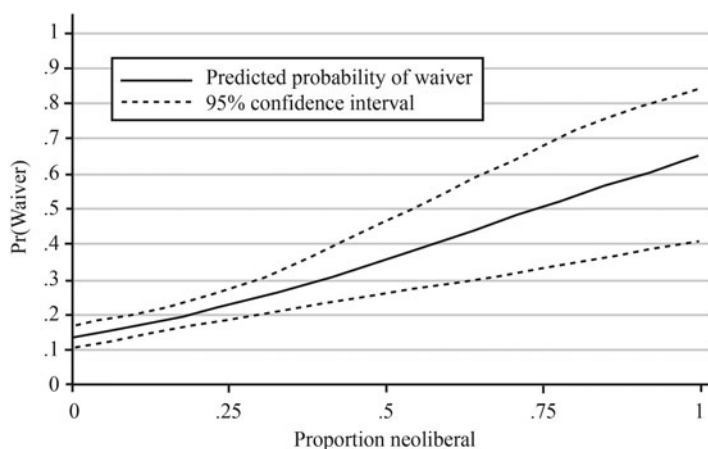


FIGURE 7. *Predicted probability of receiving a waiver as proportion neoliberal varies*

The results are consistent with arguments advanced in this article. The measure of enforcement, however, is imperfect. Ideally, one could assemble a sample consisting of borrowers that sought and received a waiver to compare with a sample of borrowers that were denied a waiver. Countries under IMF programs that had no need for a waiver (and thus did not receive one) could be omitted from the analysis. The problem is that one observes the staff's decision to recommend a waiver only—and the Executive Board always approves the staff's recommendation, even when discussion of the proposal is contentious.¹¹² The staff members are given the discretion to recommend a waiver, and one does not observe cases in which the staff privately considered and ultimately rejected a borrower's case for a waiver.

Given the shortcoming of the dichotomous indicator for waivers, I examined one additional measure of enforcement's stringency: the number of waivers granted by the Executive Board. Instead of focusing on whether a country under an IMF program did or did not receive a waiver, I ask whether, conditional on the Board's decision to grant a waiver, the ideational proximity of the team in the borrowing country and the IMF (operationalized by the `PROPORTION NEOLIBERAL` variable) is associated with the number of waivers granted. The average number of waivers approved in an Executive Board decision is two; the variable ranges from a minimum of one to a maximum of seven. I regress the number of waivers on the same set of covariates listed in Figure 6; following Stone I estimate a negative

112. Even when key states dispute the staff's recommendation the waiver is ultimately approved. This is not to say that the EB is powerless, since it can discourage staff members from even proposing a waiver, but it does suggest that by the time proposals reach the board they are take-it-or-leave-it offers that the board always accepts. For example, Martin 2006, 143.

binomial count model.¹¹³ The results ($N=136$) show that, after accounting for the impact of other covariates, the PROPORTION NEOLIBERAL measure is positively correlated with the number of waivers granted for noncomplying countries, though the substantive impact of the variable on the number of waivers is relatively small.¹¹⁴ These findings, combined with the rest of the results I described, are strong evidence that treatment improves as the ideational proximity of the IMF and the policy team in the borrowing country narrows.

Alternative Explanations

The distance between the economic beliefs of the IMF and the policy team drives the argument: when the gap is large, the IMF is more likely to limit the borrower's policy discretion by reducing access to funds, adding conditions, and punishing noncompliance. The PROPORTION NEOLIBERAL variable is a way to indirectly measure the beliefs of the policy team. A different interpretation would treat the presence of neoliberals not as an indicator of beliefs but rather as a credible signal of the borrower's type.

Conditional lending does involve an adverse selection problem. Consider a simple distinction between two borrowers whose objectives differ: a liberalizer that will stick with the strictures of the program and a "redistributive" government that survives by giving rents to social groups and will not comply with the conditions after it has accessed the initial tranche of the loan. It is difficult for the IMF to discover the true intentions of governments because "foreign assistance may well provide a motive for the 'redistributive' government to mimic the 'liberaliser' for a while . . . by skewing the incentives of the 'redistributive' government, it makes it more difficult for the 'liberalising' government to reveal its true type."¹¹⁵

Perhaps the PROPORTION NEOLIBERAL variable is actually an indicator for a credible signal that distinguishes the government's true type. There are two problems with this interpretation. First, the credibility of a signal is linked to its costliness.¹¹⁶ Appointing a neoliberal policy-maker is not very costly, because the executive can always engineer the official's replacement. Finance ministers and central bank governors typically do not survive in office for very long in developing countries, a tendency that gets amplified during economic crises.¹¹⁷

113. The covariates of the number of waivers granted by the board between 1992 and 2002 are analyzed in Stone 2011, 191–93.

114. The estimates for PROPORTION NEOLIBERAL in the negative binomial model of the number of waivers granted are: $\beta = 0.481$, robust std. error = 0.215, $p = 0.025$. The full sets of results are presented in the supplementary appendix that accompanies the article.

115. Rodrik 1989, 758.

116. Dixit 1996.

117. This suggests another issue, which was pointed out by an anonymous reviewer: if it is easy to jettison members of the policy team, should not the IMF discount the degree of ideational proximity by the likelihood of survival? Aside from the limits of the IMF's ability to forecast the political fortunes of the policy team with which it has been negotiating, the evidence in Nelson 2009 shows that neoliberal officials'

Second, if neoliberal policy-makers are *ex ante* signaling devices that help the IMF mitigate uncertainty associated with the government's intentions, then one should observe that the likelihood of obtaining a waiver decreases as the proportion of neoliberals in government increases.¹¹⁸ The logic follows Tomz's discussion of sovereign lending: borrowers that are reputed to be "stalwarts" (unlikely cases for debt repudiation) will be punished by investors for failure to repay regardless of the circumstances under which noncompliance occurred.¹¹⁹ One would expect to see the same kind of updating by the IMF: neoliberal policy teams that fail to meet specified policy targets communicate information to the IMF's staff and management that the borrower is not trustworthy.

Another explanation for the findings would emphasize the relationship between education and competence.¹²⁰ The socializing experiences that, in my argument, transmit neoliberal economic ideas to policy-makers also confer a bundle of other attributes. Along with economic ideas, economists with advanced training from highly ranked American economics departments may have technical skills or innate abilities that make them more "competent" economic officials. There is no need to refer to the ideas held by IMF staff members if all rational individuals perceive neoliberals to be better equipped to carry out stabilization and reform programs.

I cannot definitively claim that beliefs dominate competence because I do not have a ready identification strategy to separate the independent effects of each. I leave that task for future research. However, the evidence here undermines the claim that neoliberals are more competent policy-makers. Governments with neoliberals receive, on average, larger loans with fewer conditions attached. Highly competent policy teams should find it a cinch to successfully complete such programs. Yet one of the strongest findings in the article is that neoliberals are much more likely to obtain waivers in order to continue to draw on the IMF's resources despite noncompliance.

Conclusion

The IMF plays a key role in the global economy. Because capital flows are procyclical, low- and middle-income countries suffering from payments problems frequently find that the IMF is their only economic lifeline. Since 2008 a handful of rich democracies in Western Europe have learned that lesson as well. The Great Recession of

prospects for political survival are enhanced by favorable IMF treatment. Neoliberal finance ministers are approximately 30 percent less likely to be removed from office than non-neoliberals in countries that borrow from the IMF, and the hazard for neoliberal central bankers in countries that turn to the IMF is about 40 percent lower. IMF lending programs, in essence, raise the costs that leaders pay to ditch neoliberal members of the policy team.

118. I thank Tom Pepinsky for suggesting this point.

119. Tomz 2007.

120. Besley and Reynal-Querol 2011, 553–54.

2007–2010 has for the foreseeable future destroyed the possibility that rescues coordinated by rich and powerful states will be sufficient to quell the turmoil.

Understanding how the IMF chooses to deploy its policy tools, then, is an important issue, both for theories of IO behavior and for practical policy analysis. I have outlined several possible sources of bias in IMF lending and linked uncertainty and beliefs to decision making. The theory suggests that when the economic beliefs of a policy team are close to the beliefs of the IMF, loans are larger, conditionality is weaker, and enforcement is less rigid. In other words, policy teams composed of fellow travelers receive special treatment by the IMF. The evidence from analysis of a large number of IMF lending arrangements strongly supports the argument.

Is the IMF's inconsistent behavior to blame for some of its more spectacular failures?¹²¹ In January 2002, several weeks after the IMF refused to disburse a tranche because of pervasive noncompliance, the interim Argentine president announced a moratorium on external debt repayment to a room full of cheering legislators. Between 1991 and 2001, the Argentines signed five separate agreements with the IMF. Conditionality was light; only one of the five agreements (March 1992) included binding structural conditions. As the IEO's postmortem report noted, "even though the annual deficit targets were missed every year from 1994, financing arrangements with Argentina were maintained by repeatedly granting waivers."¹²² The decade marked a remarkable consolidation of neoliberal control over policy-making in Argentina: every economy minister and central banker between February 1991 and December 2001 held a PhD from a top-ranked American economics department.¹²³ The evidence of generous treatment during a period of neoliberal control is consistent with the argument and evidence. And, to the extent that the Argentine crisis was driven by unsustainable fiscal policies and underlying structural problems (for example, labor market inflexibility) that eroded confidence in the *Convertibilidad* system, the IMF's relative leniency was a grave mistake.¹²⁴ Reflecting on the Argentine crisis, the former head of the IMF's Western Hemisphere department accepted that the IMF had been too permissive: "the Argentine political class thought that the IMF was always giving them a new chance, no matter what they did. So they kicked the problem down the line. The behavior of the Fund ratified this perception."¹²⁵

Efforts to improve the effectiveness and legitimacy of the IMF focus mainly on its financial resources and the distribution of voting rights. While it is easy to find critics

121. Stone answers affirmatively. See Stone 2002 and 2011.

122. IMF 2004, 4.

123. Three universities (Harvard University, the University of Chicago, and the University of Minnesota) were responsible for the training of every member of the Argentine policy team (executive excepted) during the decade.

124. "Convertibility," introduced in April 1991, committed the Argentine central bank to convert pesos to US dollars at a one-for-one rate. Under the currency regime growth in the domestic monetary base was fully backed by international reserves. Argentina devalued the peso and ended the policy in January 2002.

125. Tenenbaum 2004, 195 (my translation).

who bemoan the dominance of neoliberal economists at the IMF,¹²⁶ efforts to change recruitment patterns have made little headway. This article's evidence indicates that the beliefs of the staff and management have important consequences for the institution's behavior.

Supplementary material

Replication data are available at <http://dx.doi.org/10.1017/S0020818313000477>.

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126. Take, for example, comments by South Africa's long-serving finance minister, Trevor Manuel: "[There is] a sense of sameness about the people. They are all very smart. They go to the same Ivy League universities and get their PhDs. It is not innovative." *Financial Times*, 17 March 2009, 2.

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