Is the International Monetary Fund the Johnny Appleseed of Neoliberalism in the Developing World?*

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*New, hopefully better, title

The Political Consequences of IMF Lending

Does the IMF enhance the political fortunes of likeminded officials in borrowing countries?

- Consider Domingo Cavallo (Harvard econ PhD): economy minister in Argentina for 2,007 days (1991-1996)
- Average duration for 22 officials that preceded him (1970-1991): 340 days
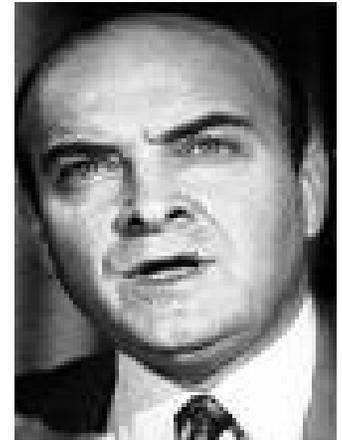
The argument in brief

- Evidence for a Johnny Appleseed effect: where the IMF goes, neoliberal policymakers sprout and take root
- The IMF doles out more generous, less onerous, and lightly-enforced conditional loans to policy teams containing likeminded economic officials
- The presence of the IMF raises the cost paid by the executive to engineer the removal of a top neoliberal official

The IMF and Neoliberal Policymakers
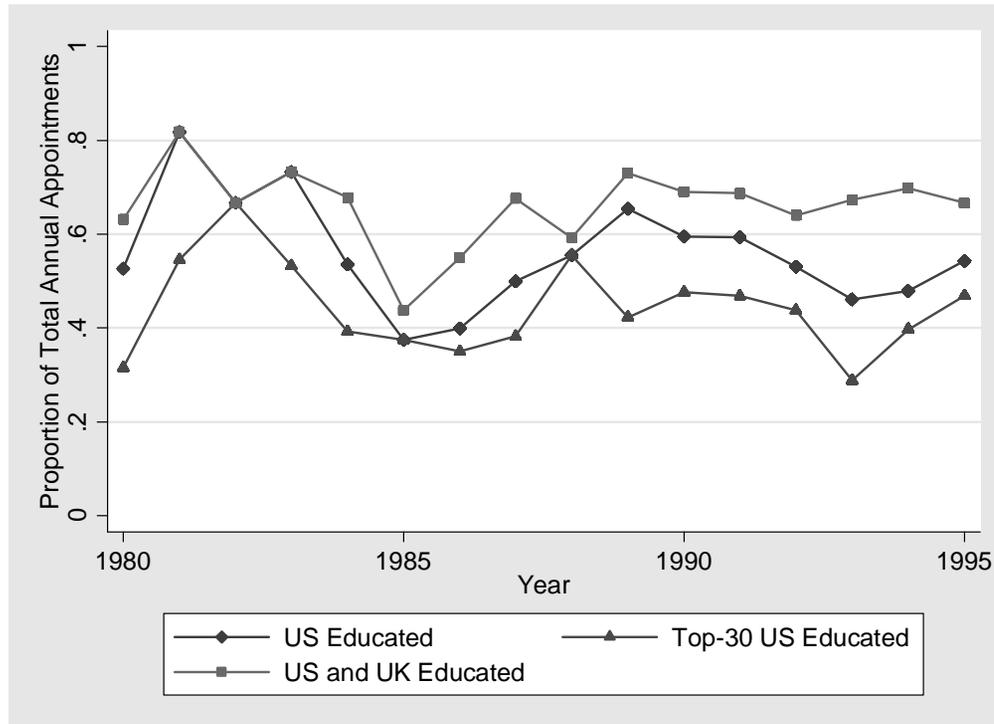
- Data on 554 appointees to senior positions between 1980 and 1995

- Proportion trained in top-ranked American economics departments hovered between 40 and 60 percent for most of the period

- IMF has no choice but to wade into murky political waters
- Who does the IMF like and trust? Policymakers that share the set of beliefs with IMF staff and management are regarded as credible allies in the reform effort
- All else equal, IMF is more likely to support a team of fellow neoliberals
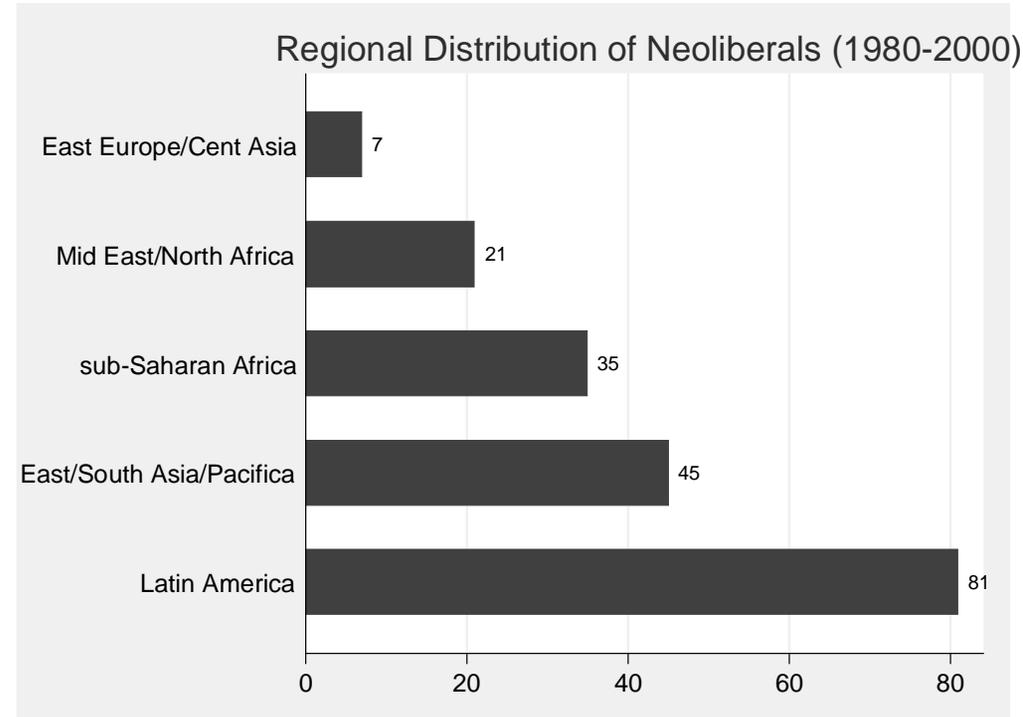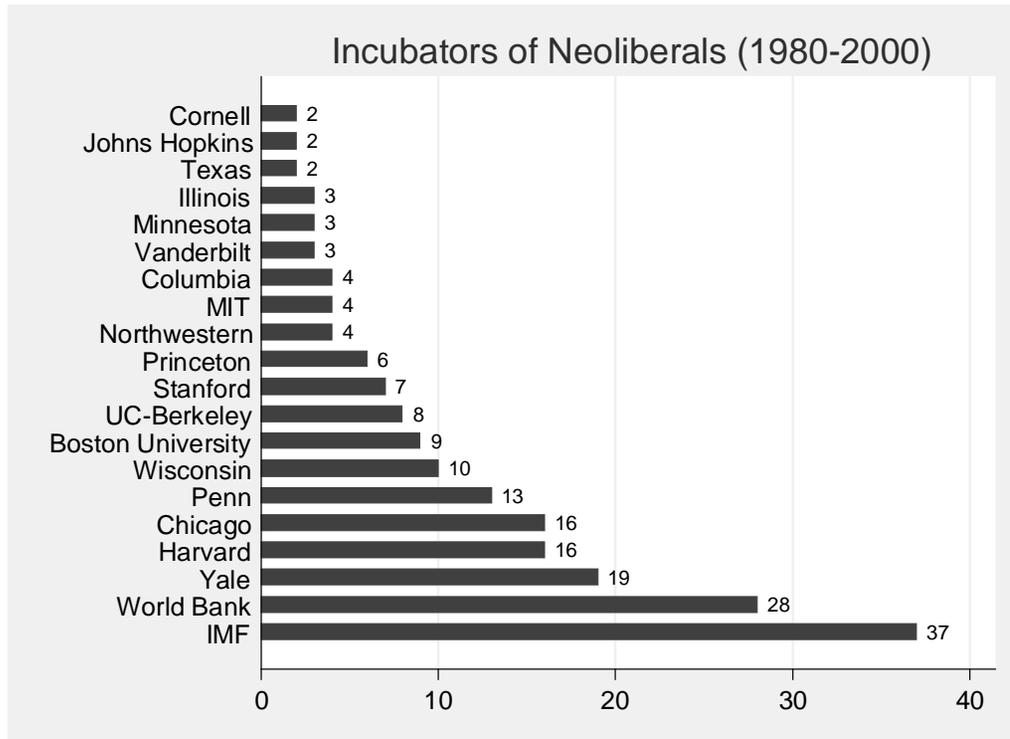
Testing the Argument: New Data

Measuring the ideas held by policymakers

- Two socializing experiences that transmit neoliberal ideas
    - Graduate training in top American economics departments
    - Sustained experience within the IMF and/or World Bank
    - Data collection yields dates of entry and exit and biographical information for over 2,000 policymakers in 90 low- and middle-income countries (1980-2000)

- Construction of *proportion neoliberal*
    - Economic policy team composed by the signatories to the agreement (usually the finance minister and central bank governor) and the executive
    - *Proportion Neoliberal* ranges from 0 (no neoliberal policymakers) to 1 (unified neoliberal policy team)

$$\frac{Proportion}{Neoliberal} = \frac{\text{Number of Neoliberals in Top Policymaking Positions}}{\text{Total Number of Important Economic Policymakers}}$$

Training and Regional Distribution of Neoliberal Policymakers

Incubators of Neoliberals (1980-2000)

University	Count
Cornell	2
Johns Hopkins	2
Texas	2
Illinois	3
Minnesota	3
Vanderbilt	3
Columbia	4
MIT	4
Northwestern	4
Princeton	6
Stanford	7
UC-Berkeley	8
Boston University	9
Wisconsin	10
Penn	13
Chicago	16
Harvard	16
Yale	19
World Bank	28
IMF	37

Regional Distribution of Neoliberals (1980-2000)

Region	Count
East Europe/Cent Asia	7
Mid East/North Africa	21
sub-Saharan Africa	35
East/South Asia/Pacifica	45
Latin America	81

Proportion Neoliberal and IMF Treatment

Measuring IMF treatment of borrowers

- Three dimensions: conditionality, generosity, and enforcement
- Sample: 503 conditional loans signed between 1980 and 2000

Conditionality: holding all other covariates at mean/minimum values, moving from no neoliberals to unified neoliberal team shaves **two** binding conditions off the average lending program

Loan size/quota (logged): Moving from no neoliberals to a unified neoliberal government increases loan size by between **35 and 45 percent**

Waivers: unified policy teams are **41 percent** more likely to receive a waiver for missed conditions than governments without neoliberals

Political Consequences: How the IMF Valorizes Neoliberal Economic Policymakers

Policymakers with neoliberal credentials can credibly claim to deliver better treatment by the IMF

The presence of the IMF increases the cost that leaders pay when they engineer the removal of top neoliberal officials

Do neoliberals have more influence over policymaking in countries with lengthy experiences under the IMF's watchful eye? Do neoliberal finance ministers and central bankers survive longer under IMF programs?
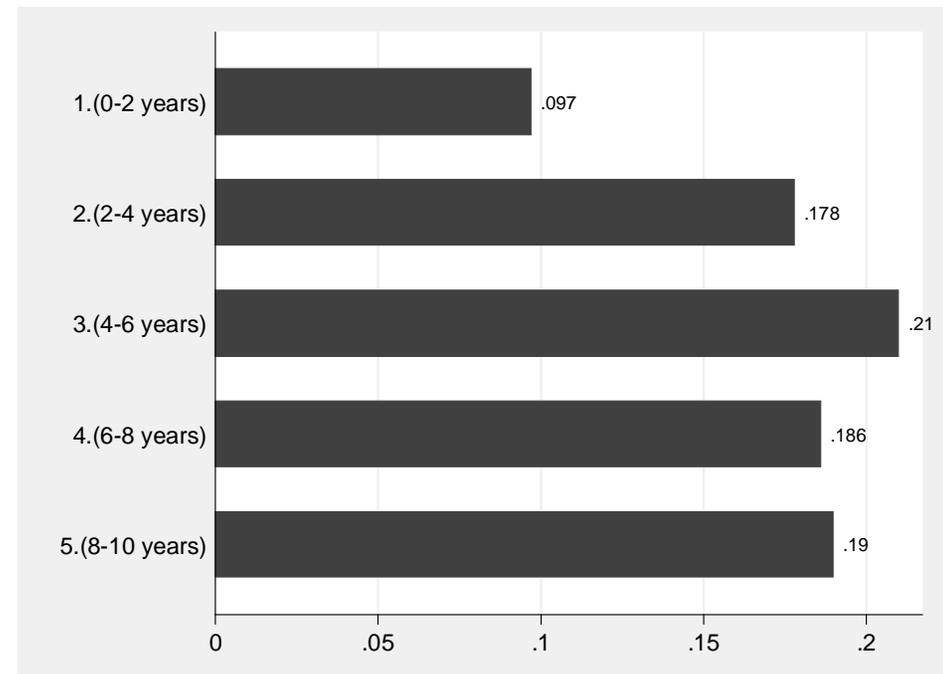
Yes, and yes

Evidence for the Johnny Appleseed Effect

Years under IMF Programs (1970-2000) vs. %Neoliberal (1980-2000)
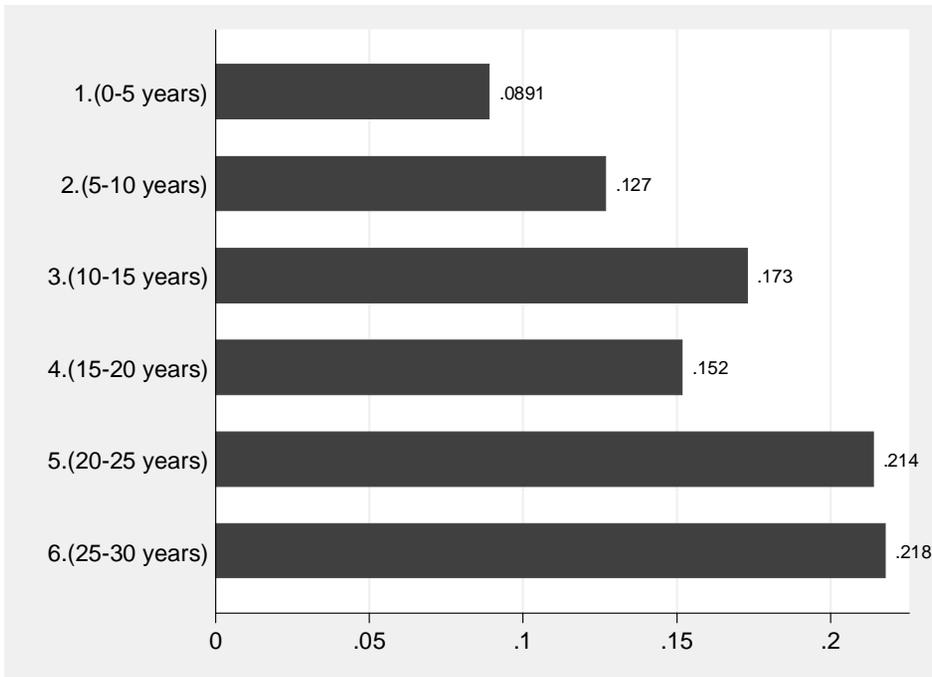
- Correlation between the degree of IMF involvement and influence of neoliberals (1980-2000)

Years under IMF Programs (1970-1979) vs. %Neoliberal (1990-2000)


- By construction, %Neoliberal (1990-2000) cannot "contaminate" degree of IMF involvement in the 1970s
- Correlations stands up in the multivariate models

Correlates of *Proportion Neoliberal* (1980-2000)

Covariates	(1)	(2)
Cumulative years in IMF Programs	0.024***	
	(0.007)	
Years in IMF Programs, 1970-79		0.045**
		(0.016)
GDP per capita	0.0001***	0.0001***
	(0.00001)	(0.00001)
Regime Type Score	0.036***	0.038***
	(0.009)	(0.009)
Oil Production per capita	-5.448***	-5.336***
	(1.186)	(1.258)
Socialist Legal History	-1.470***	-1.467***
	(0.184)	(0.187)
Left Government	0.094	0.105
	(0.098)	(0.098)
Veto Players	-0.040	-0.030
	(0.035)	(0.034)
Constant	-2.152***	-2.076***
	(0.129)	(0.112)
Number of observations	1,750	1,750
Log-pseudolikelihood	-513.867	-514.579

Note: coefficients from fractional logit model of the proportion of neoliberal policymakers (1980-2000); Huber-White robust standard errors in parentheses below coefficients. *p<10%; **p<5%; ***p<1%

The IMF and Political Survival of Neoliberal Officials
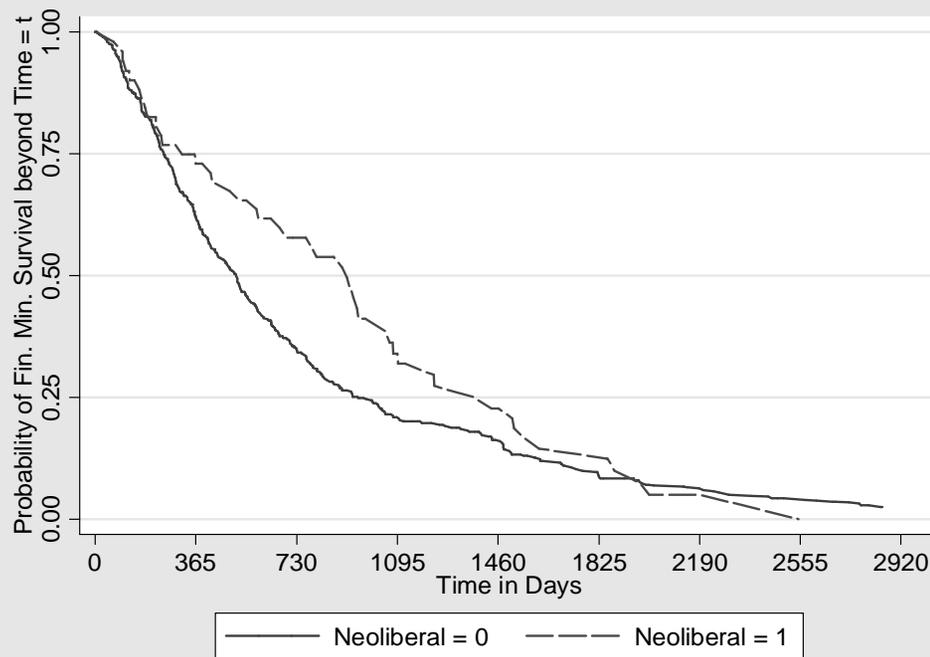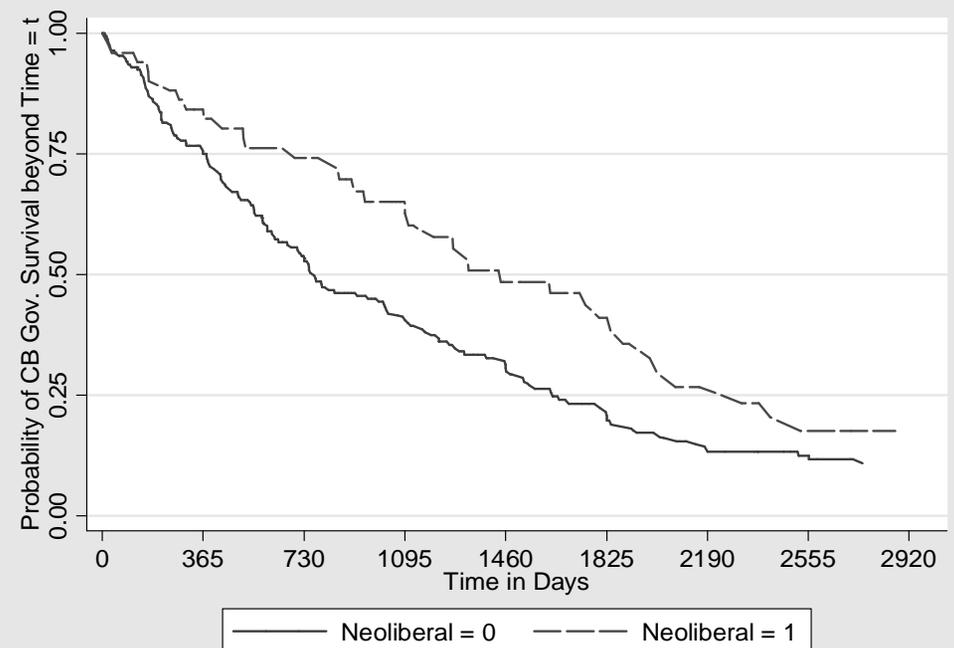

- Logrank test shows that difference in survivor functions is significant

  $(\chi^2 = 4.28, p = 0.039)$.

- The difference between neoliberal and non-neoliberal central bankers is highly significant

  $(\chi^2 = 6.03, p = 0.014)$.

The Survival of Finance Ministers under IMF Programs

Covariates	DV: Survival of Fin. Mins. (in days)
Neoliberal	-0.354*
	(0.176)
Caretaker/Transition Govt.	2.241***
	(0.317)
Inflation	15.635***
	(1.559)
Inflation × ln(t)	-2.554***
	(0.266)
GDP growth	-0.013
	(0.011)
Currency Crisis	0.260
	(0.196)
Mixed Regime	0.297
	(0.160)
Presidential Democracy	0.454*
	(0.183)
Parliamentary Democracy	0.372
	(0.210)
ΔLeader	1.254***
	(0.122)
Number of observations	1,253
Number of subjects	539
Number of failures	401
Time at risk	310212
LR test (frailty parameter	4.91
(θ) = 0)	$p = 0.013$
Log-likelihood	-1914.297
Wald χ^2	261.54
Probability > χ^2	0.0000

Note: coefficients from Cox proportional hazard model with country-specific frailty terms sampled from a gamma distribution; standard errors in parentheses below coefficients. *p<10%; **p<5%; ***p<1%

- Method: Cox proportional hazard models with country-specific frailty term

- *Conditional on being under an IMF program*, neoliberal finance ministers are **~30%** less likely to be removed from office than non-neoliberals in countries that borrow from the Fund

The Survival of Central Bankers under IMF Programs

Covariates	DV: Survival of Cent. Bank Govs. (in days)
Neoliberal	-0.505*
	(0.214)
Inflation	13.331***
	(1.962)
Inflation × ln(t)	-2.008***
	(0.317)
GDP growth	-0.035*
	(0.017)
Currency Crisis	0.071
	(0.296)
Mixed Regime	-0.124
	(0.247)
Presidential Democracy	-0.128
	(0.280)
Parliamentary Democracy	-0.092
	(0.337)
ΔLeader	0.513*
	(0.199)
Number of observations	846
Number of subjects	295
Number of failures	192
Time at risk	240442
LR test (frailty parameter (θ) = 0)	14.48 / $p < 0.000$
Log-likelihood	-798.174
Wald χ^2	79.50
Probability > χ^2	0.0000

Note: coefficients from Cox proportional hazard model with country-specific frailty terms sampled from a gamma distribution; standard errors in parentheses below coefficients. *p<10%; **p<5%; ***p<1%

The hazard for neoliberals at the helm of central banks is ~40% lower among countries that seek IMF funding

Additional Evidence

Neoliberal policymakers are not, in general, more durable than non-neoliberals

Table below tracks average survival time (in days) of neoliberals and non-neoliberals in countries *not* under IMF programs (1980-2000)

	Mean Duration of Economic Policymakers (in days)		
	Yes	No	T-stat for diff. of means (p-value)
Neoliberal Finance Minister?	813.13 ($N = 38$)	680.87 ($N = 343$)	1.13 (0.26)
Neoliberal Central Banker?	1,355.72 ($N = 36$)	1,288.74 ($N = 164$)	0.28 (0.78)

…and One Last Bit of Evidence

No threshold effect: governments with and without neoliberal economic policymakers face broadly similar economic conditions in the year of entry into a new lending program

Economic Indicators	Avg. Value of Econ. Indicators in Year of New IMF Loan		
	Neoliberal Policymaker in Government	No Neoliberals in Government	T-stat for diff. of means (p-value)
Current Account/GDP	-4.45 (N = 159)	-5.40 (N = 326)	1.35 (0.18)
Debt/GNI	83.08 (N = 156)	96.95 (N = 344)	1.69 (0.09)
Reserves/Debt	11.43 (N = 152)	14.61 (N = 344)	1.36 (0.17)
Inflation	64.90 (N = 153)	46.61 (N = 343)	0.84 (0.40)
GDP Growth	2.10 (N = 164)	2.28 (N = 360)	0.34 (0.74)
Capital Flows/GDP	0.19 (N = 160)	0.13 (N = 359)	0.77 (0.44)

Conclusions

For leaders of countries that need to draw on the IMF's resources, appointing and keeping neoliberal economists is good politics

The IMF's role in the diffusion of neoliberalism: more than conditionality