Partisan Politics in International Financial Rescues

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Motivation

- Negotiations over international financial rescues are difficult
- States in economic distress need financing, but at what cost?
- Conditions require policy reforms in exchange for loan

Motivation

- When do borrowers' preferences matter?

- When borrowers encounter "co-partisans" on the IMF EB, they are more likely to get what they want

Focus

- Our focus is on a specific lender: IMF
- The IMF provide a “hard test” of co-partisan hypothesis
- In theory, IMF is non-partisan
  - Yet there is abundant evidence that IMF lending is heavily politicized by large shareholders’ interests
  - Partisanship as additional political factor shaping large shareholders’ lending preferences

Argument

- Partisan politics play out via national-level appointment of Executive Directors (EDs)
  - Executive Board is composed of 24 EDs
  - EB approves all loans
  - US, Japan, Germany, France and the United Kingdom each appoint their own ED
  - G5 EDs are appointed by national governments
    - In the UK, for example, the Prime Minister appoints the British Director
  - Left governments appoint left-leaning directors

Argument

- G5 Directors can be more or less left-leaning, depending on the parties in power at home
- G5 are more lenient with “co-partisan” borrowers
- Borrowers’ preferences are more influential when negotiating with the IMF in the shadow of “co-partisan” approval

Argument

- Focus on loan conditions as the key outcome of negotiations
  - Labor-related conditions
    - “Reduce the 1st grade public sector wage from 91,000 BYR to 77,000 BYR” (Belarus 2008 prior action)
    - “Cut at least 5,500 positions in the education sector” (Bulgaria 2006 benchmark)
    - “The monthly minimum wage is not to exceed 160 BGN” (Bulgaria 2006 performance criteria)

The politics of labor conditions

- Left governments resist labor conditions
- Left-leaning Directors will be sympathetic to demands for less stringent labor conditions
- *Hypothesis*: Loans negotiated between left borrowers and a left IMF will contain fewer labor conditions, all else equal

Data

- Sample: all non-concessional IMF borrowers from 1983-2012 (N=146-156, 39-42 countries)
- Dependent variable: # of labor conditions
  - Various permutations: % of total conditions, # of labor-related prior actions and performance criteria, count/log of labor conditions, etc.

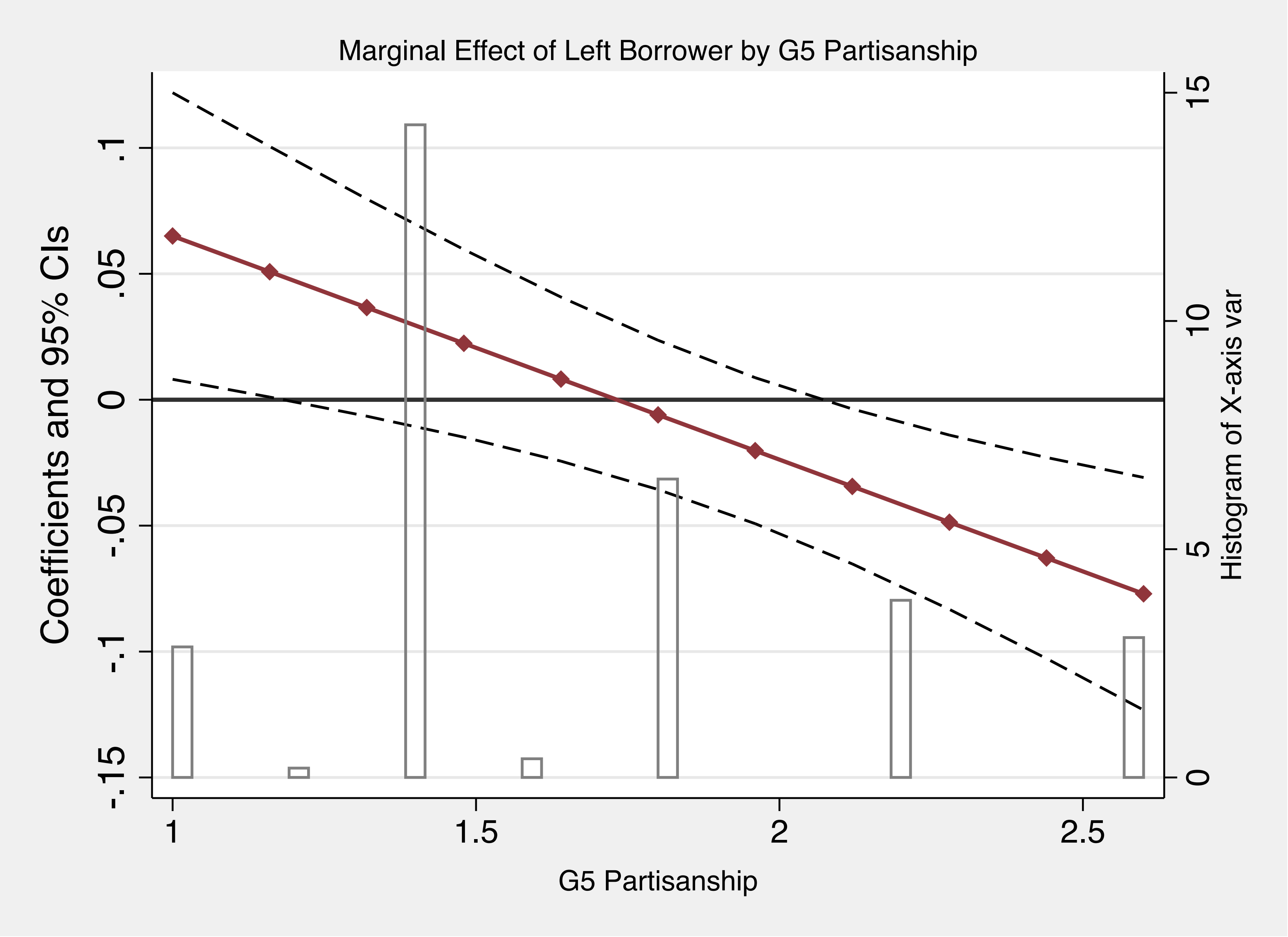
Data

- Sample: all non-concessional IMF borrowers from 1983-2012 (N=146-156, 39-42 countries)
- Dependent variable: # of labor conditions
- Key independent variables:
  - Partisanship of borrower (chief executive)
    - World Bank DPI classification (1=right; 3=left)
  - Vote-weighted partisanship of the G5 countries
  - Interaction of the two

Results

- Marginal effect of a left borrower on labor conditions is negative when G5 Directors are also left-leaning

Conditional Marginal Effect of Left Borrower by G5 Partisanship (Labor-related conditions, % of total)



Conclusions

- Partisanship affects both the demand for and supply of IMF conditionality
- Loans approved by IMF EB for "co-partisan" borrowers differ from those approved for other countries
- Elections in one country can affect policy reforms in other countries via IMF conditions

Thank you!

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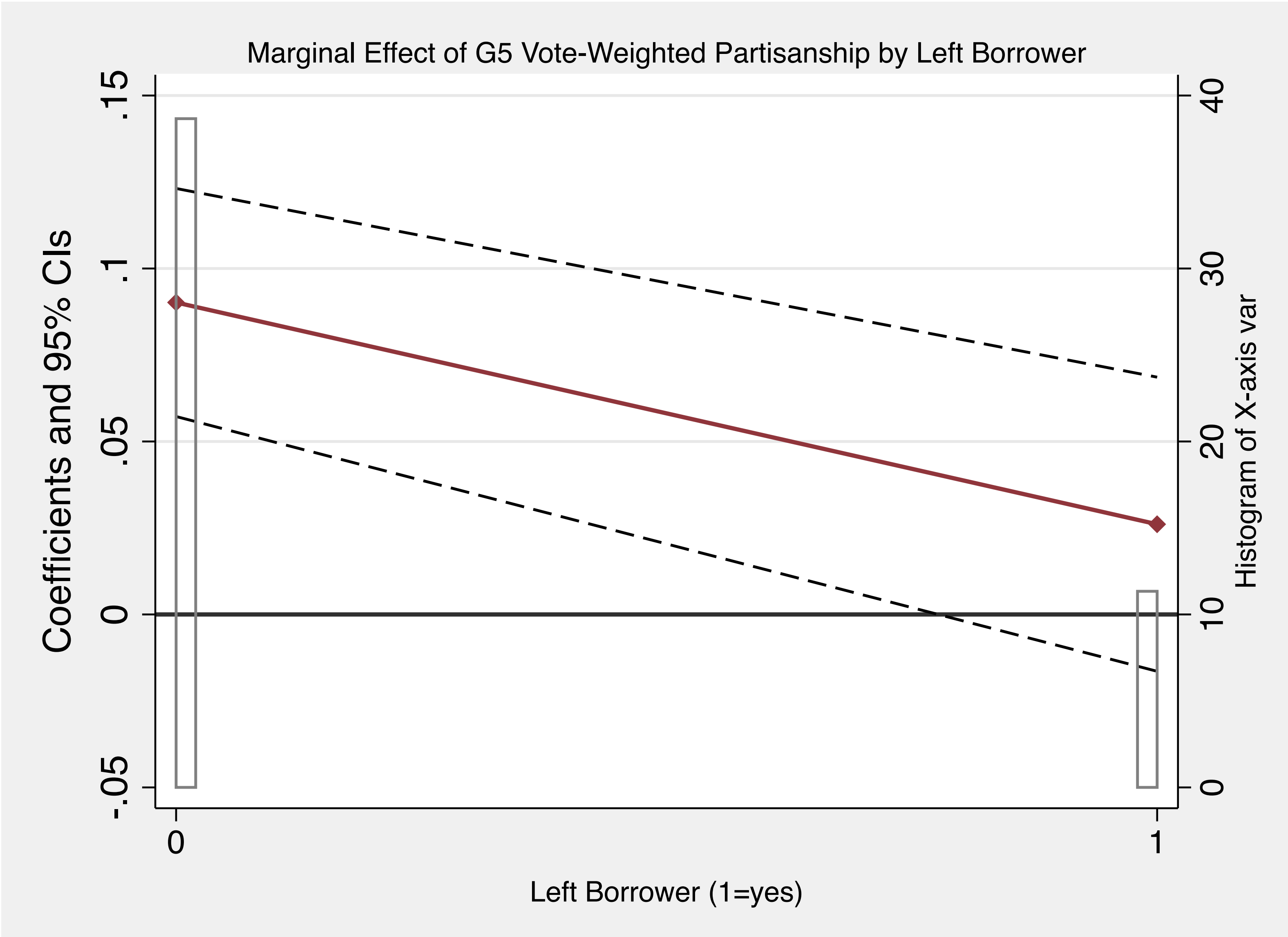
G5 Partisanship and IMF Conditionality (unconditional)

Variable	***G5 DPI = 1 (Right)***	***G5 DPI = 1.6***	***G5 DPI = 2.7 (Left)***
Total labor-related conditions	0.1	0.3	3.5
Labor-related conditions (% of total)	0%	4.2%	11.5%

Conditional Marginal Effect of G5 Partisanship by Left Borrower (Labor-related conditions, % of total)



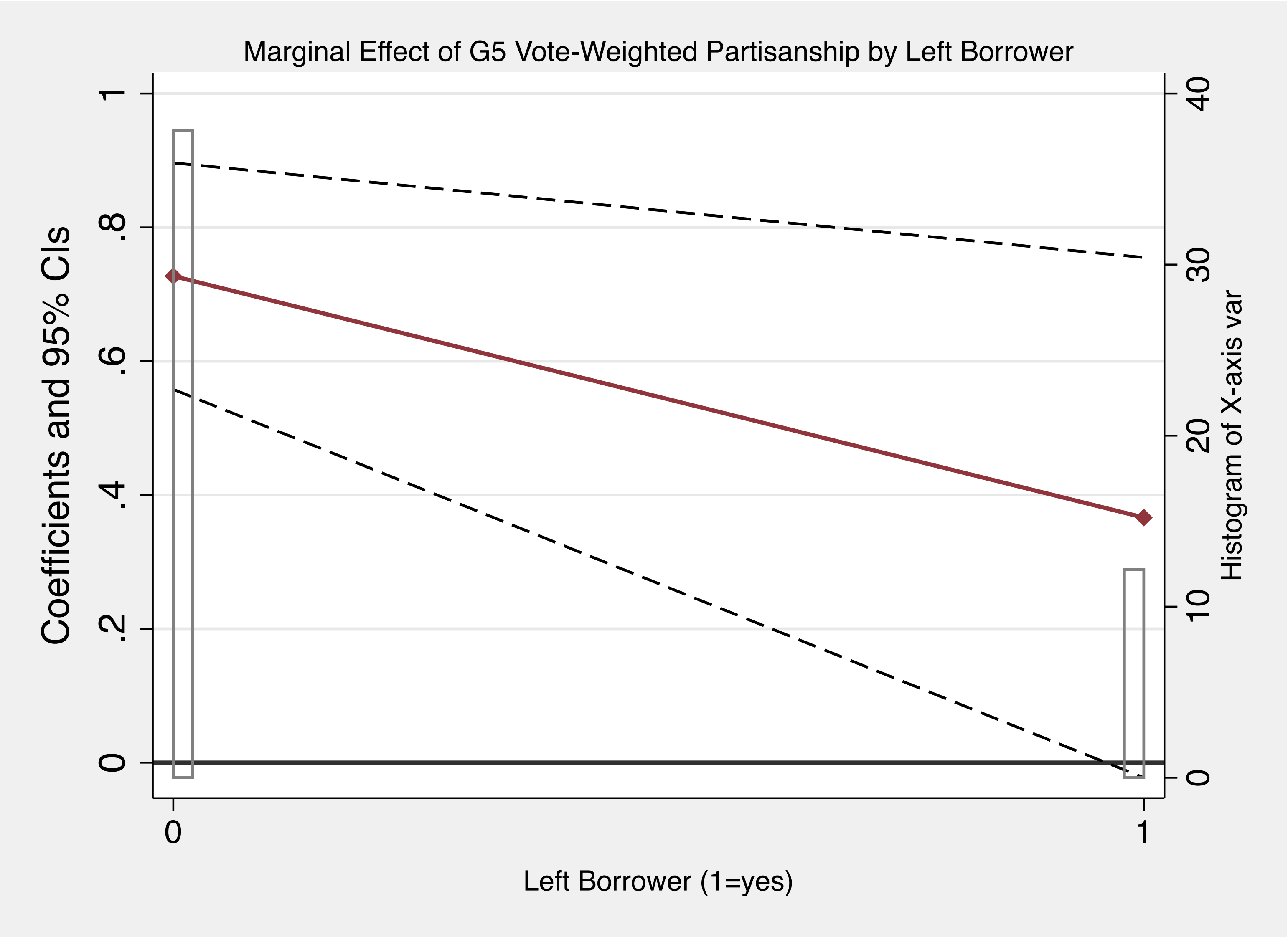
Implications

- Debate exists in the literature as to whether borrowers interests converge or diverge from those of the IMF
  - Often assumed that a conflict of interest over conditionality exists between the IMF and borrowing governments (e.g. Pop-Eleches 2009)
  - Yet others argue that borrowers and the Fund have convergent interests (e.g. Vreeland 2003)
- We resolve these conflicting expectations by theorizing as to when disagreement is most likely

Implications

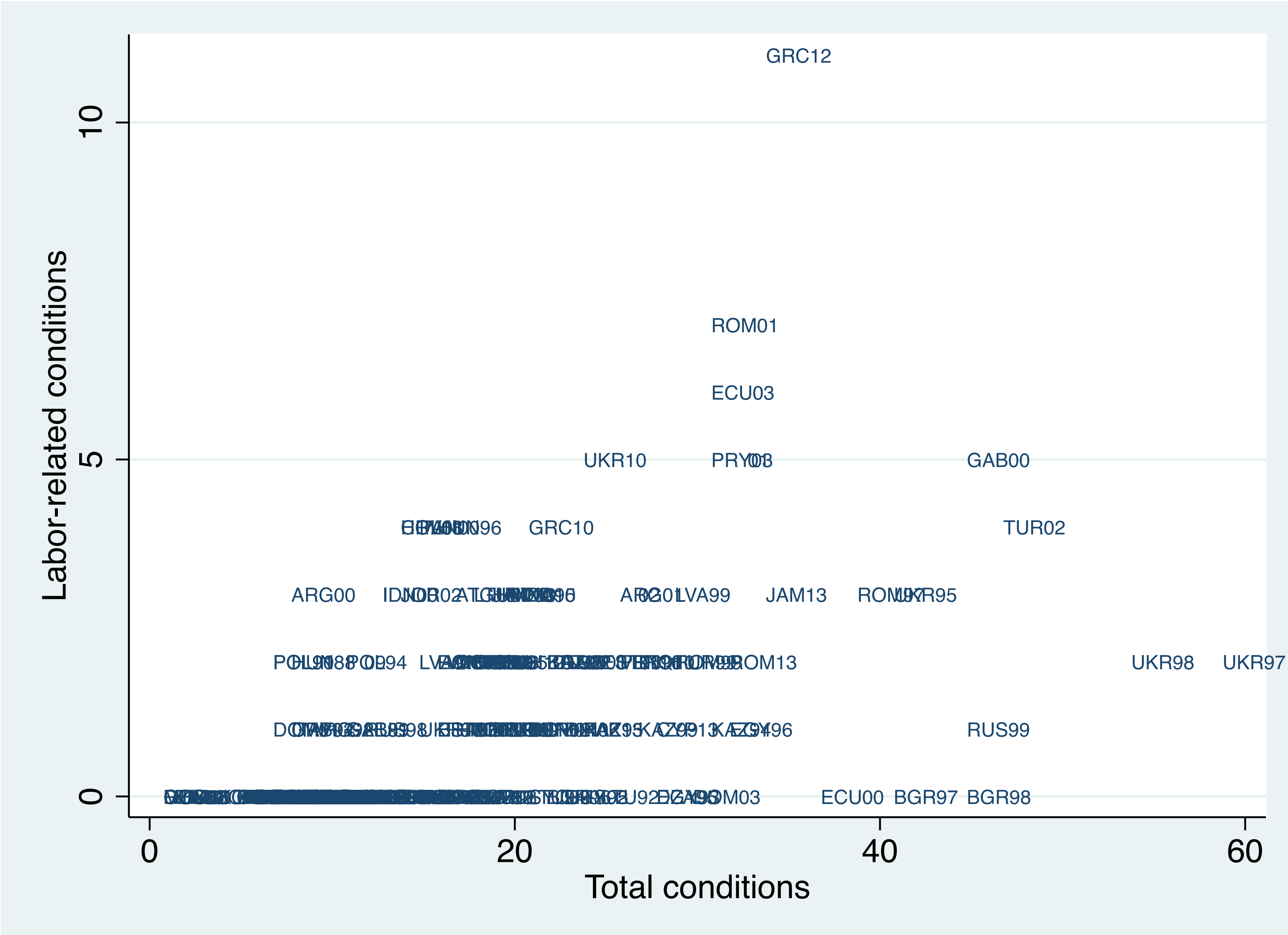
- Affinity is too narrowly defined
  - "Geopolitical" affinity: measured by looking at the similarity of UN voting
  - Geopolitical affinity reduces the total number of conditions (e.g. Stone, Vreeland, Dreher, etc.)
  - Ideological affinity also matters
- International negotiations are two-sided
  - Studies often focus more attention on one side (e.g. Rickard & Caraway)
  - We examine the effects of partisanship on both sides

Conditional Marginal Effect of G5 Partisanship by Left Borrower (Labor-related conditions, log)



Labor conditions

- Public sector wages
- Public sector employment
- Privatization
- Minimum wages
- Private sector wages
- Pensions
- Social security
- Labour market flexibility
- Collective bargaining decentralization



GRC12
ROM01
ECU03
UKR10
GAB00
GRC10
TUR02
ARG00
LVA99
JAM13
UKR95
ROM13
UKR98
UKR97
RUS99
ECU00
BGR97
BGR98
0
5
10
Labor-related conditions
0
20
40
60
Total conditions

Further implications

- Elections in one country can affect policy outcomes in other countries
- IMF transmits national-level partisan politics across the world