

What's in a Name?

The Effects of World Bank Classifications

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Motivation

“The ability to classify objects, to shift their very definition and identity, is one of bureaucracy’s greatest sources of power.”

- Michael Barnett and Martha Finnemore,
“The Politics, Power, and Pathologies
of International Organizations”

Research Questions

1. Does classification affect the behavior of other actors in the international community?
2. Why (and under what conditions) does classification have these effects?

Contributions

- ▶ Responds to literature focusing on how powerful states use IOs to advance their interests (Stone 2011; Dreher, Sturm and Vreeland 2009; Kaja and Werker 2010; Kersting and Kilby 2016) by showing that IOs can also exercise power through their bureaucracies (Barnett and Finnemore 1999, 2004)
- ▶ Joins emerging literature on importance of labels in political science (Cooley and Snyder 2015; Gray 2013; Brooks, Cunha and Mosley 2015; Kelley and Simmons 2015)

Theoretical Approaches

Cognitive

- ▶ Classifications simplify or distill information
- ▶ Limited power in many organizational decisions

Strategic

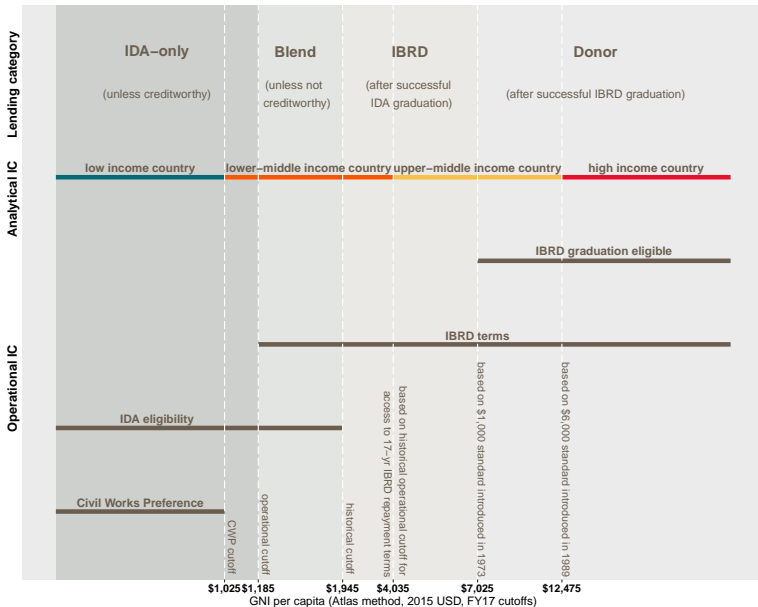
- ▶ Using classifications created by credible third party improves appearance of impartiality
- ▶ For what audience?

Cognitive-Strategic Theory

- ▶ Cognitive heuristics could *directly* influence elites
- ▶ But more likely influence elite behavior *indirectly* through strategy when audience is susceptible to cognitive biases

Observable Implications

1. Classification swill influence actors with less institutionalized decision-making processes [cognitive]
2. Classifications will influence actors who want to appear impartial to an external audience [strategic + indirect cognitive]
3. Simpler, more familiar classifications more powerful than complex ones [cognitive]



Testable Hypotheses

Hypothesis 1

Thresholds are more likely to affect ratings [*cognitive mechanism*] and aid [*strategic mechanism*] than they will affect investment decisions.

Hypothesis 2

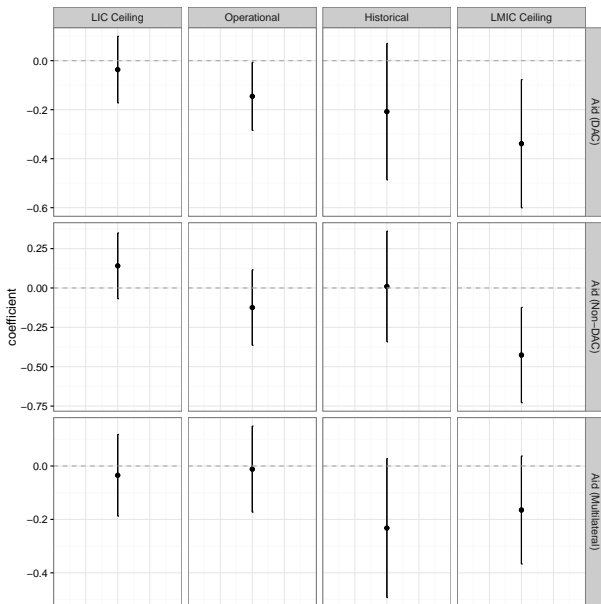
Analytical thresholds will produce stronger effects than operational thresholds.

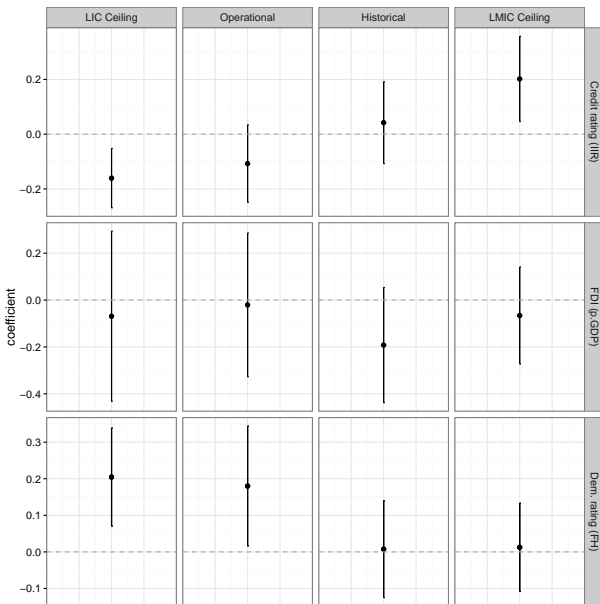
Empirical Model

$$\begin{aligned} Y_{i,t} = & \alpha + \beta \text{Above cutoff}_{i,t-lag} \\ & + \delta \log(\text{GNIpc})_{i,t-lag} \\ & + \gamma \mathbf{X}_{i,t-lag} + \mu_i + \tau_t + \epsilon \end{aligned}$$

* See Knack, Xu, and Zou (2014).

- ▶ Sample: All country-years that received an income classification from the World Bank, data from years 1987-2015, excludes always-HICs
- ▶ DVs: ODA (OECD), FDI (UNCTAD), Creditworthiness (IIR), Political Rights score (Freedom House)
- ▶ Controls: log pop, log gross capital formation, Political Rights score
- ▶ Units of analysis: period (lag 1) vs. yearly (lag 2)
- ▶ Subgroups: IDA-only vs. all





Results

Findings

- ▶ Thresholds affect donors and raters but not investors
- ▶ Outside of aid, analytical classifications matter more (esp. LMIC/UMIC)
- ▶ Halo effect? LICs seen as less democratic

Further tests

- ▶ Robustness checks change unit of analysis, subgroup, inclusion of covariates and fixed effects, and lags
- ▶ Rebasing exercises as source of identification

Qualitative Support

- ▶ 18 interviews with World Bank stakeholders
 - ▶ Varied perspectives from Executive Directors, IDA Deputies, and Country Directors
 - ▶ Varied experiences with 19 countries recently graduated or soon to graduate from IDA
- ▶ Developing countries think perceptions matter
 - ▶ Countries graduating IDA report losing access to trust funds, regional hubs, etc. because “IDA is for the poorest countries”
- ▶ Donors want to be able to show that most of their aid is going to LDCs, conflict-affected states

Conclusion

- ▶ Classification *does* affect the behavior of international actors
- ▶ Classifications act as cognitive heuristics that sometimes operate *directly*
- ▶ But more often *indirectly* by creating strategic incentives for actors to use them to appear impartial

Future research

- ▶ Test theory in a lab environment?
- ▶ Strategic origins of classifications?
- ▶ Shapes strategies of classified countries?

Extra Slides

