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Grigore Pop-Eleches: From Economic Crisis to Reform

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Introduction

IN THE SUMMER OF 1985, in the midst of the debt crisis, two newly elected Latin American presidents set out to transform the domestic and international political economy trajectories of their respective countries. Despite the shared economic and political challenges facing the neighboring countries of Bolivia and Peru as poor, highly indebted new democracies, the two new leaders moved their countries in opposite directions: in Bolivia Victor Paz Estenssoro ended the country's prolonged economic and political paralysis, and instituted a radical program of orthodox economic reforms, which transformed the country from a regional basket case into an unexpected showcase example of successful neoliberalism and cooperation with the International Monetary Fund. Meanwhile, the newly elected Peruvian president, Alan Garcia, reversed his country's earlier IMF cooperation and initiated a heterodox domestic adjustment program combined with a unilateral debt payment reduction. Even though important elements of Garcia's heterodoxy were also found in Argentina's Austral Plan and Brazil's Cruzado Plan, Peru suffered greater international consequences as its highly publicized break with the IMF ultimately resulted in international economic isolation and high economic costs by the end of the decade.

More than a decade later, newly elected center-right governments in Bulgaria, Romania, and Moldova also set out to redirect their countries' prior economic reform trajectories. While their ex-communist predecessors had not resisted IMF policy advice to the extent of their Latin American counterparts, the electoral victories of openly pro-market coalitions promised to accelerate the pace of IMF-style reforms. These expectations were fulfilled in Bulgaria, where the government of Ivan Kostov pursued a series of remarkably consistent and successful reforms in close and quasi-permanent cooperation with the IMF. Despite their similar goals and starting points, the Romanian and Moldovan reformers were much less successful than their Bulgarian counterparts, as political infighting and lack of bureaucratic expertise contributed to a succession of inconclusive stop-go economic reform efforts. Therefore, the IMF program records of the two countries hardly improved under their pro-market governments,

and in Romania the advent of a fully implemented IMF program actually had to wait until after the return to power of the ex-communists in the 2000 elections.

These brief snapshots highlight the tension inherent in the IMF's involvement in developing countries. On the one hand, the IMF's central role in the wave of neoliberal reforms of the last two and a half decades has led some observers to interpret IMF programs as tools for imposing the Western economic agenda on the developing world (Pastor 1989, Stiglitz 2002). On the other hand, these sketches also suggest that the Fund cannot simply impose its agenda on program countries, and that domestic political interests and institutional constraints still matter even in developing countries facing serious economic crises. Therefore, other analysts have suggested that IMF conditionality—the practice of conditioning IMF loans on the implementation of certain economic policies—has played only a modest role in shaping economic reforms (Remmer 1998), serving instead as a political alibi for domestic reformers (Vreeland 2003). These conflicting interpretations, which echo long-standing debates about the nature and implications of IMF conditionality, and about the drivers of neoliberal reforms more broadly, raise a number of important questions: Why and how do economic crises trigger and sustain IMF-backed economic adjustment policies in developing countries? Does the IMF live up to its stated goal of providing impartial policy advice and financial support for troubled developing countries? How do IMF lending patterns reflect the evolving demands of international financial markets and the changing priorities of advanced industrial democracies in the developing world? Under what constellations of domestic interests and institutions are governments more willing to initiate and more capable of implementing IMF-style reforms? How are the pressures of IMF conditionality filtered through the domestic politics of program countries?

More broadly, by focusing on the politics of IMF programs I address a number of central theoretical questions about the increasingly intertwined nature of domestic and international drivers of economic policy making. First, in the tradition of Gourevitch's (1978) "second image reversed" approach, I analyze the influence of the broader trends in the global economy on domestic politics and economic policy choices. In analyzing these international drivers, I emphasize not only the central and continuously evolving role of the IMF in shaping economic policies of developing countries, but also the impact of economic incentives related to international financial markets and the political economy of trade and geopolitical alliances. However, in this book I am equally concerned with how domestic ideology, interests, and institutions in developing countries mediate the powerful economic and political pressures to which these countries are subjected, particularly in economic crisis situations. As such this book

builds on earlier analyses of the role of domestic politics in shaping national responses to international crises and pressures (Simmons 1994, Keohane and Milner 1996, Garrett 1998).

Since one of the main arguments of this book is that the interaction between domestic and international political economy is contingent on temporal and geographic context, I address these questions by analyzing evidence from two prominent recent episodes of large-scale economic adjustment under IMF supervision: Latin America during the debt crisis of the 1980s, and Eastern Europe and the former Soviet Union during the post-communist transition of the 1990s. For additional analytical leverage the final part of the book also compares these two episodes to the IMF program patterns in Latin America in the 1990s. This systematic cross-regional and cross-temporal comparison of the politics of IMF programs captures the dramatic geopolitical and economic transformation of the international sphere since the debut of the debt crisis in 1982, and at the same time it highlights the important regional variation in historical and institutional legacies across different parts of the developing world.

At the international level, I show that the IMF's response to economic crises is driven by the changing imperatives of international financial stability and the changing interests of large IMF member countries. Whereas IMF programs during the 1980s debt crisis emphasized austerity measures geared toward the repayment of external debt, IMF conditionality in post-communist Eastern Europe focused more heavily on domestic structural reforms and the international economic and political integration of the former command economies. Moreover, crises in both regions received greater attention from the IMF when they occurred in economically and/or politically important countries. While deviations from technocratic uniformity were driven by both concerns about international financial stability and the narrower political and economic objectives of the Fund's largest shareholders, this book shows that the nature and intensity of such deviations depended on the regional and global crisis context, with systemic concerns playing a greater role during the Latin American debt crisis, and geopolitical considerations being more salient during the post-communist transition.

Domestically, this book shows that economic crisis only triggers economic reforms when international interpretations (such as those of the IMF) of the roots and implications of the crisis resonate with the ideal and material interests of domestic elites and ordinary citizens. The extent of such ideological agreement and the compatibility of democratic politics with IMF-style reforms hinges on the broader regional/global context of a given crisis: during periods of worldwide economic crisis and international ideological contestation—such as the debt crisis of the 1980s in the context of the final decade of the Cold War—IMF interventions are more

likely to be regarded as thinly disguised impositions of Western economic interests by significant portions of the elite and the population. In such a political context, economic crises are more likely to trigger divergent partisan policy responses from governments of different orientations, and democracy tends to be at odds with economic adjustment. During periods of global economic expansion and international neoliberal ideological hegemony, the IMF is more likely to be viewed as a technocratic policy adviser. Under such circumstances—as was the case in the ex-communist countries in the 1990s—economic crises trigger nonideological economic adjustment efforts, which are broadly compatible with democratic politics. However, even economic need and ideological agreement do not guarantee the successful implementation of reforms; in addition, governments embarking on IMF-style reforms need to have the bureaucratic capacity necessary to cope with the technical challenges of the reform process and the political capital necessary to weather its political challenges.

The theoretical framework and the empirical tests in this book focus not only on the separate effects of particular factors, such as economic pressures, political interests and institutional constraints but on the interaction between these different elements in shaping the economic reform process.¹ Rather than simply asking whether IMF-style reforms are more likely in countries with financially or ideologically motivated governments or with well-functioning bureaucracies, the book analyzes under what political and institutional circumstances economic crises are more effective triggers of policy change, and, conversely, under what economic circumstances partisanship and bureaucratic capacity matter more for IMF programs.² The empirical patterns revealed by this analysis justify not only the emphasis on such interaction effects but also the cross-regional and cross-temporal comparative setup of the book. For example, the analysis shows that economic crises rarely affect developing countries uniformly: Instead, in both regions economic crises were much more likely to trigger IMF programs when they occurred in economically important countries and in countries with well-functioning bureaucracies. Conversely, economic importance and bureaucratic capacity mattered primarily during severe economic crises but were much less important during normal economic environments. The impact of domestic economic crisis intensity also varied as a function of government partisan interests, but

¹ For a compelling illustration of the importance of such interactive theoretical propositions, see Franzese's (2002) analysis of policy making in developed democracies.

² Earlier work has identified important interaction between partisanship and various domestic institutions such as labor-organizational structure (Alvarez et al. 2001), labor market organization (Boix 2000), central bank independence (Clark et al. 1998, Cusack 2000), as well international constraints (Boix 2000, Garrett 1998). However, the interaction between crisis intensity and partisanship has received much less attention so far.

in this respect the patterns were context-specific: For Latin America in the 1980s, domestic economic crises accentuated partisan policy differences, whereas in Eastern Europe in the 1990s, similar crises instead triggered partisan policy convergence, as political parties discarded their fair-weather policy differences and acquiesced to IMF demands. Partisan crisis responses in Latin America during the 1990s were less clear-cut, but the overall patterns were closer to those of post-communist Eastern Europe, suggesting that the ideological convergence of the 1990s trumped (at least temporarily) the partisan polarization of Latin American politics.

The remainder of this introductory chapter is organized as follows: The next section introduces the analytical framework developed in this book and explains the research design in greater detail. The third section puts the two main crises in comparative perspective, by presenting an overview of the economic and geopolitical background of the Latin American debt crisis and the post-communist transition in both international and domestic terms. The fourth section discusses the theoretical contributions of this book to debates in the international and domestic political economy literatures. The last section lays out the plan of the book and provides a brief chapter summary.

The Analytical Framework

As laid out in more detail in chapter 2, this book analyzes IMF programs as an interaction between the IMF and developing country governments in the context of a number of economic and political constraints at the domestic and international level. Even though IMF programs are negotiated by two primary actors—representatives of the IMF staff and the program country government—the actual dynamics of Fund programs are decisively shaped by the complex web of political and economic constraints under which the two main actors operate. Therefore, to explain the trajectories of IMF programs in the developing world, we must consider a series of analytical steps. First, we have to understand how the nature of IMF conditionality toward a given country is shaped by the competing imperatives of the Fund's multiple agendas. These include ensuring international financial stability, imposing prudent economic policies in program countries, and (occasionally) helping large donor countries pursue their broader economic and geopolitical interests. This international policy environment, combined with the country's financial need and domestic economic imbalances, establishes the broad parameters of what the government *needs to do* to address the demands of the country's economic situation in the context of an IMF program. The partisan interests of the parties and politicians in power affect their interpre-

tation of the country's economic situation and, therefore, shape what the government *would like to do* in the absence of domestic constraints. Finally, governments are constrained domestically in what they *can do* to resolve economic crises. The severity of these constraints depends on the government's ability to overcome potential political resistance from reform opponents, as well as on the capacity and willingness of the state apparatus to implement the government's desired policies.

Research Design

In line with a few recent contributions to the political economy of IMF programs (Stone 2002, Vreeland 2003), this book employs a multimethod approach: The predictions of the theoretical model presented in chapter 2 (and formalized in that chapter's appendix) are tested in subsequent chapters through a combination of cross-country statistical tests (based on twenty-one Latin American/Caribbean³ and twenty-six Eastern European/former Soviet countries⁴) and comparative case studies of four Latin American countries (Argentina, Bolivia, Chile, and Peru) and four Eastern European countries (Moldova, Slovakia, Bulgaria, and Romania).

The basic theoretical claim of the book is that domestic and external economic crises are not uniform drivers of IMF programs (as much of the prior literature has implicitly assumed) but that economic crises are mediated by politics at both the national and the international level. Therefore, this book departs from prior works by comparing two temporally and geographically bounded country clusters: Latin America during the debt crisis of the 1980s, and the transition economies of Eastern Europe and the former Soviet Union in the 1990s. The final chapter of the book places these two reform episodes into additional comparative perspective by discussing the broad political dynamics of Latin American IMF programs in the 1990s. These comparisons show not only that differ-

³ The criterion for inclusion in the sample was that a country had to be an IMF member (thereby excluding Cuba, for which reliable statistical data were not available in any case) and have a population of at least one million in 1982. The resulting sample included the following countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay, and Venezuela.

⁴ Since all ex-communist countries were IMF members and had populations above one million, the only transition countries excluded from my sample were Bosnia-Herzegovina and Yugoslavia, for which there was insufficient statistical data in the 1990s. The final sample consisted of the following countries: Albania, Armenia, Azerbaijan, Belarus, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Macedonia, Moldova, Mongolia, Poland, Romania, Russia, Slovakia, Slovenia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

ent crisis aspects matter more under certain circumstances (e.g., debt payments during the 1980s in Latin America versus reserves in post-communist Eastern Europe) but that economic crises are interpreted and treated differently depending on the broader regional and international climate (e.g., inflation leads to partisan policy divergence in Latin America but to partisan policy convergence in Eastern Europe).

The comparison of three episodes of IMF programs (in broadly comparable countries) under varying crisis types and crisis “logics” allows me to trace the changing interaction between economic crisis and political interests/constraints as drivers of IMF programs and economic reforms. From this perspective, this book builds on the theoretical insights of earlier studies (Gourevitch 1986, Rogowski 1989), which showed that domestic alliances and policy choices were greatly affected by temporally specific changes in global markets. Somewhat surprisingly, the more recent literature dealing with IMF programs and the neoliberal reforms of the last twenty-five years has largely ignored the role of changing temporal dynamics due to systemic transformations. Similarly, despite the ongoing theoretical debates about the importance of regions for political science (Bunce 1995, Schmitter and Karl 1994, Mainwaring and Perez-Linan 2007) and a number of insightful cross-regional comparisons (Greskovits 1998, Haggard and Kaufman 1995, 2007), regional differences have been generally ignored in the study of IMF programs.⁵

While the specific choice of episodes will be discussed in greater detail below, I will first lay out the methodological justification for using systematic cross-regional and cross-temporal comparisons, and the potential advantages of this approach over the two most common alternatives: the single-region approach (Pastor 1987, Stone 2002, 2004) and the multiregion and multiperiod sample of IMF programs (Reichmann and Stillson 1978, Thacker 1999, Barro and Lee 2003, Vreeland 2003). To understand the advantages of this research design, it is useful to consider the implications of having used one of the alternative approaches for the findings mentioned above. Had the argument been developed by studying only post-communist Eastern Europe, the book would have concluded that foreign reserve levels are the crucial driver and higher inflation leads to ideological convergence. By contrast, the same approach in Latin America in the 1980s would have yielded very different conclusions, emphasizing the role of external debt and the partisan policy divergence in response to inflationary crises. Therefore, a single-region, single-period approach would run the risk of generalizing on the basis of a specific context to

⁵ See, for example, Stone and Steinwand’s (2008) criticism that much of the IMF literature has ignored the serious heterogeneity of IMF programs and candidate countries.

a broader universe of cases for which the relationship does not hold.⁶ Alternatively, this approach can provide valid insights for a particular set of cases but it may not lend itself to some of the comparative insights generated by a systematic cross-regional and cross-period analysis.

The common approach of combining different time periods and regions into one analysis has the potential advantage of providing generalizable results across countries. However, for these results to be meaningful, we have to assume causal homogeneity across time and space.⁷ While this may well be the true for Vreeland's (2003) particular concern—the growth effects of IMF programs—for the questions addressed in this book, this approach would have probably found no interaction effects between inflation and partisan orientation (since the two opposite effects would have canceled each other out), missing a crucial aspect of the story.⁸ Moreover, pooling requires the use of the same statistical indicators across different episodes, which is precluded by data coverage limitations for several important indicators (such as bureaucratic quality and partisan orientation).

While Eastern Europe and Latin America have been fruitfully compared before in the political economy literature,⁹ the choice of the Latin American debt crisis and the post-communist transition as the two main sets of cases for the present analysis was based on several theoretical criteria. First, the two clusters represent the two most extensive episodes of IMF interventions in recent history, which not only signals the prominence of the two crises on the Fund's agenda but also has the advantage of offering significant variation in both dependent and independent variables within each region. Second, the two regions displayed a broad and roughly comparable spectrum of socio-economic development levels, which made them more comparable to each other than each of them would have been to Africa, for example.¹⁰ Third, the Latin American debt crisis and the post-communist transition capture critical junctures in the economic and political development of the two regions in that they involved a massive and costly economic reform push in the delicate political context of democratic transitions.

⁶ To Stone's credit, he resists making such generalizations and emphasizes the potential context specificity of his findings.

⁷ For a detailed discussion of the pitfalls of striving for larger sets of cases without regard to causal homogeneity, see Brady et al. 2004.

⁸ While this problem can theoretically be addressed by interacting regional/temporal dummy variables with the variables of interest, such an approach would produce a large number of cumbersome triple-interaction effects for many of the key findings of this book.

⁹ Greskovits 1998, Weyland 1999, Schamis 2002.

¹⁰ The East Asian crisis was another plausible candidate for comparison but it had the disadvantage of involving a much shorter time period and a significantly smaller number of countries than the Latin American debt crisis and the post-communist transition.

At the same time, however, the two episodes differed significantly along a number of important dimensions, which shaped the political dynamics of IMF programs and of neoliberal economic reforms more broadly.¹¹ As the following section shows in greater detail, the changes in international financial markets and Western political priorities since the 1980s contributed to important shifts in the agenda of IMF interventions in the developing world. These changes in the international environment, combined with the different roots and nature of the domestic economic crises in the two regions, contributed to different domestic political reactions to neoliberal reform initiatives. Finally, the two regions also differed with respect to their domestic political and institutional landscape, including political parties, interest groups, and state institutions, which led to noticeable differences in the dynamics of reform initiation and implementation.

While these cross-regional differences do not preclude the comparability of the two episodes, they nevertheless suggest that this book's approach of systematic cross-temporal and cross-regional comparisons is more appropriate for studying the political dynamics of IMF programs than the traditional approach of treating IMF programs as uniform treatments across time and space. The inclusion of a third set of cases in the final chapter—Latin America in the 1990s—provides additional analytical leverage by helping identify which of the differences between the initial two clusters are primarily due to temporal changes in the international political economy of IMF interventions, and which are rooted in the domestic socioeconomic and political logics of different regional developmental trajectories.

The case studies in chapters 4, 6, and 7 are nested in the statistical tests of the preceding chapters, and therefore their primary purpose is to provide a more detailed and nuanced analysis of the mechanisms underlying the broad empirical regularities identified by the large-N analysis. In line with Lieberman's (2005) argument about case selection in model-testing (rather than model-building) small-N analysis, the country cases were chosen primarily from among "along-the-line" cases, which fit the theoretical predictions and statistical findings and therefore provide an opportunity for exploring these macro-findings in greater detail. While the book discusses the trajectories of four countries from each of the two regions, the number of cases is actually greater than eight because the significant over-time changes in relevant political and economic variables result in each country providing more than one analytically relevant case to the analysis, thus, Bolivia 1982–85 is a separate case from Bolivia

¹¹ For a more detailed theoretical discussion about the trade-offs entailed in comparing East and South, see Bunce 1998.

1985–89, given that the government change in 1985 resulted in a dramatic change in partisan orientation, and thus offers the opportunity of analyzing two different types of partisan responses to economic crises. Of course, given the fairly large number of resulting cases and the length of the period under consideration, not all cases perfectly fit the model for each of the factors analyzed in the statistical chapters. Such deviations, however, represent an additional benefit of case studies, since they not only remind us of the importance of idiosyncratic factors in shaping political outcomes but can also identify more systematic explanations, which may nevertheless not be suitable for large-N statistical tests (due to data limitations).

The choice of countries for the case studies was guided by two additional methodological criteria. First, I chose cases that jointly capture a large range of the variation in the key drivers of IMF programs discussed in the theoretical chapter and the statistical analyses (King et al. 2001: 147–49). For example comparing the IMF programs of a systemically important country like Argentina, with those of marginal countries like Bolivia during and Moldova and in-between cases like Peru and in Bulgaria, helps clarify the mechanisms and implications of preferential treatment during IMF negotiations across regions and time periods. The selected countries also represent a wide range of economic conditions spanning from the catastrophic domestic and external crises in Bolivia during the mid-1980s and in Bulgaria during the mid-1990s to the relative economic stability of Chile since the mid-1980s and Slovakia since the mid-1990s. Furthermore, the case studies capture at least some of the theoretically important variation in regime type (e.g., authoritarian regimes like Chile in the 1980s, semiauthoritarian regimes like Peru and Slovakia in the mid-1990s, and democracies like Argentina and Peru in the 1980s and Bulgaria in the 1990s) and partisan orientations (ranging from leftists like Alan Garcia and nationalists like Mečiar to committed neoliberals like the Kostov government in Bulgaria and successive post-1985 Bolivian governments). Second, since arguments based on cross-country comparisons may suffer from omitted variable bias (King et al. 2001, Brady et al. 2004), cases were also chosen so as to maximize the within-country variation in relevant explanatory variables: For example, the important partisan reorientations experienced by Bolivia and Peru in 1985, Slovakia in 1994, Romania in 1996, Bulgaria in 1997, and Moldova in 1998 and 2001 offer ideal opportunities to study the effects of partisan politics on IMF programs while controlling for most other alternative explanations of IMF programs. Similarly, the rapidly changing economic fortunes experienced by several governments in the eight countries (including the Bulgarian and Romanian ex-communists in 1994–96 and

Argentina and Peru in 1985–88) facilitate within-country assessments of the effects of economic crises.

The Two Crises in Comparative Perspective

In this section I discuss the broad economic and political settings of the Latin American debt crisis and the post-communist transition. The discussion focuses on three broad categories of factors: (1) the international economic and geopolitical environment and its effect on IMF conditionality; (2) the nature and depth of the economic crises experienced by the two regions; and (3) the domestic political and institutional environment in which these crises unfolded.

IMF Conditionality in a Changing International Environment

Since 1982 the mission and the nature of IMF conditionality has been significantly affected by the economic and political transformations related to the spread of globalization and the end of the Cold War. On the economic front, the last two and a half decades have witnessed a rapid rise in international trade, capital movements, and commercial lending, as well as important qualitative changes in the composition of transnational investments. While the 1980s essentially marked the end of the era of bank finance,¹² the 1990s emerged as the “era of equity finance,” in which portfolio investments (bonds and equity) and foreign direct investment (FDI) gradually started to displace commercial bank lending, particularly in Latin America and Asia (Eichengreen and Fishlow 1996). The magnitude of these changes has been remarkable: net FDI flows to the developing world increased from \$35.7bn in 1991 to \$185.4bn in 1999. Net bond financing jumped from \$10.9bn in 1991 to \$62.5bn in 1996, before declining to \$30.3bn in 2000. Net equity flows went from \$7.6bn in 1991 to \$47.9bn in 2000, despite a temporary decline following the East Asian crisis.¹³

The rising volume and changing nature of international capital flows has affected the Fund’s ability to regulate and control international financial markets. During the debt crisis of the 1980s the IMF played a pivotal role as an intermediary between creditors and debtors and extracted significant concessions not only from debtor countries but also from Western commercial banks by threatening to withhold funding unless the banks

¹² Following the traumatic experience of the debt crisis, most commercial banks significantly reduced their exposure to developing country debts.

¹³ Data from *World Bank* 2001:36.

agreed to a substantial debt rescheduling. By contrast, in the 1990s the rising volume and complexity of international capital flows, amplified at least in part by the Fund's active promotion of financial deregulation, led to a marked reduction of the Fund's ability to control and regulate international financial markets.¹⁴ While the reduced IMF leverage over an increasingly diverse group of international lenders arguably reduced the attractiveness of IMF programs in the 1990s—and even prompted critics to call for closing down the Fund—two other aspects of the international economic and political environment mitigated and possibly reversed these effects. First, the high mobility of capital flows in the 1990s arguably raised the importance of the Fund's seal of approval, particularly for countries with limited or mixed track records in international financial markets. Second, the end of the Cold War triggered an increase in merit-based bilateral and multilateral aid to developing countries, and the IMF's role as a gatekeeper for much of this funding gave it significant leverage over poor, aid-dependent countries (Radelet 2006).

The economic and political priorities of the advanced industrial countries were also quite different both from each other and from previous interventions during the two episodes. Given the high potential impact of the debt crisis and the post-communist transition on crucial Western economic and political interests and the West's control of the majority of IMF voting rights, the IMF interventions in the two program clusters differed from the narrow traditional balance-of-payments approach used in earlier periods. Due to the high degree of exposure of many leading Western commercial banks, the prospect of a massive default on Latin American debt was seen as a serious threat to the stability of the financial systems of the main creditors (Eichengreen and Fishlow 1998).¹⁵ Therefore, Western governments and banks explicitly conditioned the much-needed debt rescheduling on the adoption of strict IMF-led adjustment programs, meant to ensure the continuation of debt servicing by Latin American debtors. Given the primacy of systemic economic concerns on the Western agenda for Latin America during the debt crisis, IMF conditionality showed little concern for domestic social and political consequences, and the resulting austerity measures left little room for “adjustment with a human face” (IADB 1990:3).

Following the collapse of Communism, Western interests in the former Soviet bloc were arguably as much geopolitical as economic in nature.

¹⁴ This loss of control was particularly visible in the Fund's widely criticized handling of the East Asian financial crisis of 1997.

¹⁵ While some observers have argued that the prosperity of a few international banks was erroneously equated with the stability of the international financial system (Diaz Alejandro 1985:25), the massive political effort starting with the IMF-led debt renegotiations up to

While the marketization and international integration of the former communist countries undoubtedly coincided with the economic interests of influential Western businesses, the originally envisioned transition from one-party-dominated command economies to liberal capitalist democracies had important geopolitical and ideological repercussions for the shape of the post-Cold War “new world order.” Even though the actual progress toward this goal has been much slower and more uneven than initially expected (Pop-Eleches 2007), this vision had significant repercussions on the IMF’s role in the region, which differed significantly from the narrow debt repayment focus of Latin American interventions in the 1980s. The first consequence was that the Fund adopted a more politically sensitive approach to IMF conditionality. While this change came at least partly in reaction to harsh criticisms of the Fund’s handling of the debt crisis, it was reinforced by the broader geopolitical agenda of the West for post-communist Eastern Europe, which was shaped by several key considerations: (1) security concerns related to the existence of nuclear arsenals in the former Soviet republics as well as the political tensions related to the Yugoslav crises (particularly Bosnia and Kosovo); (2) the geographical proximity between Eastern and Western Europe, which raised the stakes of a complete economic collapse in the former Soviet bloc;¹⁶ and (3) the lingering memories of the Cold War ideological rivalry between East and West, which may have contributed to the temptation to export the full “package” of Western political and economic liberalism to the ex-communist countries, rather than the narrower traditional emphasis on economic liberalism.

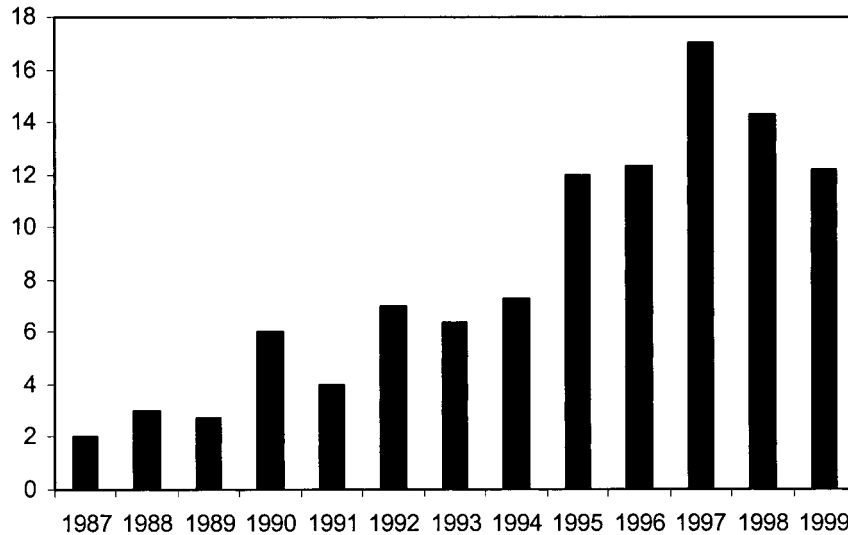
Second, in response to criticisms for its failure to respond to evolving financial markets and economic theory advances,¹⁷ in the late 1980s the Fund started to expand its mission beyond the narrow traditional balance-of-payments focus to promote a more comprehensive economic reform agenda for the developing world (Stallings 1992). This focus shift in the Fund’s agenda during the late 1980s and early 1990s is illustrated by figure 1.1, which indicates the average number of structural benchmark conditions in IMF programs 1987–99. Thus, particularly during the early and mid-1990s, there was a veritable explosion of structural conditions in IMF programs, which increased eightfold between 1987 and 1997 before starting to decline again in 1998 and 1999.

the 1989 Brady Plan indicated the depth of the Western commitment to control the international fallout from the crisis.

¹⁶ According to this logic, political turmoil in Eastern Europe (as proven by the Yugoslav crisis) can easily translate into waves of refugees into Western Europe in addition to the costs of military intervention to avoid a spread of the conflict.

¹⁷ See, for example, Edwards’s (1989) sharp critique of the IMF financial programming model.

Figure 1.1: Average Number of Structural Conditions by Program Year



Source: IMF (2001).

The nature of IMF conditionality differed not only temporally but also regionally. Thus, the number of structural conditions in Fund programs involving the former communist countries during the 1990s was consistently and significantly higher than for other regions in the same time period (IMF 2001).¹⁸ On average, transition economies had almost twice as many structural benchmarks in their IMF programs as other countries. This trend was particularly visible starting in 1995, when the average number of structural conditions in IMF programs involving former communist countries jumped to fifteen from about eight in the preceding year and stayed at or above that level for the rest of the decade, whereas in other countries the average number of such benchmarks oscillated between five and ten. Moreover, whereas in the 1980s, structural conditions emphasized exchange rate and fiscal measures (primarily spending cuts), the IMF programs in the transition economies during the 1990s were primarily concerned with tax reforms, privatization, and financial sector reforms, which accounted for more than half the structural conditions during this period (Mercer-Blackman and Unigovskaya 2000:9).

Part of this greater emphasis on structural reforms in IMF conditionality can be traced to the broader economic and geopolitical changes discussed earlier. Thus, the shift in international financial markets toward

¹⁸ The East Asian programs of 1997 and 1998 were the only exception to this pattern.

portfolio investment and foreign direct investment placed a greater premium on enacting a broader range of pro-market economic policies (especially privatization and deregulation) than had been required by the relatively indiscriminate bank lending of the 1970s. Moreover, particularly in the transition countries, a rapid dismantling of the large state sector was widely regarded as the best guarantee against a resurgence of political challenges to the liberal world order of the post-Cold War era. However, this transformation was also driven by the theoretical and ideological convictions of the IMF staff, which reflected the ideological ascendancy of neoliberalism in academic and policy circles starting in the 1980s. As Kahler (1989) points out, the traditional dominance of neoclassical prescriptions in stabilization matters was complemented by the gradual intellectual strengthening of its structural policy prescriptions starting in the 1970s, which, however, only gradually started to be applied in practice in the 1980s following the collapse of the import-substitution (ISI) models.¹⁹ While the nature of the adjustment tasks of the 1990s (particularly in the transition countries) may have required complementing monetary and fiscal policy measures with comprehensive structural reforms, this expansion occurred in an area outside the Fund's traditional area of expertise with managing balance of payments crises.²⁰ While the IMF has since announced an initiative to streamline conditionality by restricting the number of conditions and maintaining only crucial structural benchmarks, there is little doubt that the nature of IMF programs in the 1990s was profoundly influenced by the prominence of structural conditions in IMF conditionality.

The Nature of the Adjustment Challenge

The crises experienced by the two regions during the massive episodes of IMF intervention differed in both their depth and their nature. In terms of their external debt position, Latin American countries were much more vulnerable at the outset of the crisis in 1982. The crisis followed more than a decade of massive lending of recycled oil money by Western commercial banks to Latin America and other developing countries. The wide availability of low-conditionality loans had enabled the Latin American countries to finance their massive fiscal deficits and continue to keep up with the soaring interest payments charged by the commercial banks.

¹⁹ In Eastern Europe, these ideological undertones became particularly clear during the heated debates between neoliberals and market socialists about the appropriate trajectory of the postcommunist economic reforms (Greskovits 1998:29–34).

²⁰ Given that structural reforms had traditionally been primarily the World Bank's preoccupation, the IMF's expanded reach during the 1990s may explain the increasingly frequent and open tensions between the two Bretton Woods sister institutions.

However, starting in 1979 the recession affecting advanced countries, the rise of interest rates, the lower lending willingness of commercial banks, and the deteriorating terms of trade undermined the ability of Latin American governments to continue with their debt-financed expansionary policies (Eichengreen and Fishlow 1998). Thus, much of Latin American borrowing after 1980 was channeled into maintaining external liquidity (IADB 1990) and by 1982 the net inflow of international loans was insufficient to cover the spiraling interest payments and resulted in the insolvency of the most indebted nations (Brovedani 1985).

By comparison, most of the former communist countries had relatively low debt burdens at the outset of transition: Whereas by 1982, debt servicing accounted for more than 46% of the Latin America's export earnings (and then declined gradually to around 30% by the end of the decade), for the transition economies the corresponding figures fluctuated between 10% and 18% during the 1990s.²¹ Similarly, interest payments for the transition economies amounted to less than 1% of GNP before 1994 (and did not exceed 2% at any point during the 1990s), whereas in Latin America interest payments absorbed on average 4.5% of GNP 1982–89. In Eastern Europe (with the notable exceptions of Poland, Hungary, and Bulgaria), the main problem following the collapse of communism was not too much debt, which accounted for only 13% of GNP in 1990, but the extremely low international reserves and very limited access to capital markets.

Despite the severity of the Latin American debt crisis, the initial assessment of the crisis was that the underlying adjustment task was to address the spiraling external payments but did not require a fundamental revision of the region's developmental strategy (Jorge 1985:11). Therefore, it is not surprising that large segments of the population in Latin America were receptive to politicians who blamed the high adjustment costs on the foreign imposition of IMF conditionality, thereby creating a tense and ideologically charged political environment surrounding IMF programs. Meanwhile, at the outset of the post-communist transition, it was much less credible to blame the region's economic woes on the West. Even though neoliberal reforms were not necessarily embraced enthusiastically by post-communist elites and citizens, the IMF nevertheless had the opportunity to play a much more constructive role in the post-communist economic transition by providing the expertise and mobilizing the external funding necessary for a smoother international reintegration. Therefore, we would expect to see fewer political tensions in connection with IMF programs in the post-communist context.

²¹ The statistical data in this section is based on Global Development Finance (2001 CD-ROM version).

While Eastern Europeans may have had fewer reasons than Latin Americans to distrust the Fund's economic policy advice, their economies and societies suffered much greater disruptions particularly in the early part of the transition. Even though the 1980s were rightfully called "the lost decade" in Latin America, the magnitude of the output loss was much larger in Eastern Europe, where it exceeded 50% of pre-1989 output in many transition countries. Since this economic shock was compounded by the underdeveloped framework of market institutions, ex-communist countries had a significant disadvantage compared to their Latin American counterparts, which could at least depend upon the basic legal and institutional framework necessary for the functioning of a market economy. Therefore, even to the extent that IMF programs emphasized similar policy measures, the economic response to these measures were bound to differ between the two regions, as well as between countries of the same region.²²

Domestic Political and Social Context

While program initiation may frequently be an elite initiative, the implementation process inevitably involves a broader set of social and political actors. Therefore, we need to analyze the domestic social and political constellations of the two regions, and their likely implications for the politics of IMF programs. At first sight, the two regions are fairly similar in terms of regime type patterns, in that both span a wide spectrum ranging from liberal democracies to semi-authoritarian and authoritarian regimes. Moreover, a significant number of countries in both regions had to tackle the painful and unpopular economic reforms in the volatile political context of democratic transitions, thereby facing similar trade-offs between the political and economic objectives of the new democratic regimes.

Nevertheless, even a cursory overview of the two regions reveals a number of crucial differences in terms of their political and social fabric. At the most basic level, it may be worth remembering that of the twenty-eight former communist countries in Eurasia, only six—Albania, Bulgaria, Hungary, Mongolia, Poland, and Romania—existed in their current geographic form in 1989. Therefore, particularly in the early part of the decade, the overarching tasks of nation and state building complicated

²² For example, tightening domestic credit is likely to have the expected anti-inflationary effect only if state firms face hard budget constraints and banks have the expertise necessary for selective credit allocation. If these conditions are not fulfilled, the measure is likely to "choke" both sick and healthy companies, thereby creating not only unnecessarily deep recessions but also limiting the effectiveness of anti-inflationary policies.

the pursuit of economic reforms in many transition economies (Roeder 1999). Even abstracting from the often disruptive and violent nature of this process in Yugoslavia and the former Soviet Union, the need to fundamentally rebuild state institutions proved to be a formidable challenge for many ex-communist countries, including some of the region's more successful reformers (O'Dwyer 2006, Grzymala-Busse 2007).

In addition to the existence of basic state institutions, the successful conduct of economic policy requires a set of reasonably stable and coherent political organizations representing the interests of relevant social actors. In this respect, too, most Latin American countries had a superior starting point compared to their Eastern European and former Soviet counterparts. While Latin America can hardly be considered the textbook case of consolidated and institutionalized democracy,²³ the spells of authoritarian rule prior to the third wave of democratization were shorter and less totalitarian in Latin America than in the communist regimes in the Soviet bloc (Bunce 1995). Therefore, many Latin American political parties could draw on their pre-authoritarian experience and social constituencies,²⁴ whereas in the former communist countries (with the partial exception of Poland and Hungary) the only coherent political organizations were the deeply compromised communist parties (Grzymala-Busse 2002). This organizational deficit, which is a lasting legacy of communist rule (Howard 2003), explains the high degree of electoral turnover and political instability in the post-communist countries. While such instability certainly undermines the coherence of economic policy conduct, the vaguely defined ideological platforms of post-communist parties, combined with the reduced maneuvering room between impoverished populations and strict Western conditionality (Innes 2002) have resulted in less radical policy reversals than the more polarized politics of Latin America in the 1980s.²⁵

Since the politics of IMF programs are not limited to cabinet meetings and parliamentary debates, it is important to incorporate the role of interest groups in shaping the implementation of IMF-style policy measures. In this respect one must mention several significant interregional differences. In Latin America, labor unions, business associations, and in many cases the army, acted as well-organized interest groups capable

²³ See, for example, O'Donnell's (1991) discussion of delegative democracy in Latin America.

²⁴ Also, several countries (e.g., Colombia, Costa Rica, Venezuela), did not experience authoritarian regimes in more than two decades prior to the outbreak of the debt crisis.

²⁵ While Frye (2002) shows that polarization has affected economic policies and economic outcomes, policy disagreements focused primarily on the speed and mode of marketization, rather than on raising the specter of a wholesale rejection of the neoliberal economic approach.

of affecting economic policy making both directly, by threatening strikes, coups, or other forms of direct political action, and indirectly, by influencing the agenda of political parties through electoral pressures (Schneider 1997, Schamis 1999, Murillo and Schrank 2005). By comparison, in the ex-communist countries, such interest groups were severely underdeveloped: The business sector was fragmented between an initially well-connected but diminishingly influential group of state-owned enterprise managers; a small number of wealthy oligarchs, whose individual connections did not congeal into stable institutional forms; and a rising number of atomized small entrepreneurs. With a few notable exceptions (such as Solidarity in Poland) labor unions were generally fragmented and continued to suffer from their organizational subordination to the Communist Party apparatus in the decades preceding the collapse of communism. Therefore, transition governments faced less immediate political pressures from reform losers²⁶ than their Latin American counterparts (Greskovits 1998) but at the same time they suffered from a much higher degree of social “disconnect” (Howard 2003), which hindered the formation of durable reform coalitions and undermined the effectiveness of economic reforms.

Theoretical Contributions

Since IMF programs unfold at the intersection of domestic and international political economy, academic efforts to analyze them have spanned several different disciplines and subdisciplines. Therefore, this book contributes to several different bodies of literature that are concerned with various aspects of the Fund’s involvement in the developing world: the international political economy literature on the role of the IMF in international financial markets, and more broadly about the nature of international organizations’ behavior in world politics; the comparative political economy literature on the domestic politics of economic reforms in developing countries; and the largely econometric literature on the effects of IMF programs.

International Political Economy of IMF Programs

Scholarly debates about the role of international organizations in global governance have long been concerned with the political implications of IMF lending patterns. The appropriate balance between financial support

²⁶ In fact, as Hellman (1998) argues, post-communist reforms suffered more because of the early transition winners than because of opposition from losers.

and policy adjustment, which is at the very heart of conditional lending, has triggered impassioned and ideologically charged debates; thus, IMF conditionality has been criticized as being too soft,²⁷ too harsh,²⁸ or alternatively completely ineffective.²⁹ This book suggests that the nature and intensity of IMF policy demands vary significantly over time, since they are greatly affected by the broader international economic context. During global financial crises, such as the debt crisis in Latin America, the zero-sum nature of debtor and creditor interests creates significant tensions between the Fund's international policy agenda and the political priorities of developing countries. By contrast, during periods of global economic expansion, such as the financial boom of the 1990s, there is much greater overlap between the interests of debtors and creditors, and IMF programs are less likely to be viewed as painful external impositions by program countries.

Another important theoretical dilemma inherent in IMF lending practices is the trade-off between uniformity and flexibility in the design and enforcement of conditionality. In line with the Fund's mission of technocratically impartial crisis support, IMF conditionality has officially stressed uniformity of treatment at the expense of flexibility.³⁰ This approach has been criticized from two different perspectives: Some critics have charged that IMF conditionality uses a cookie-cutter approach based on outdated economic principles.³¹ Others have pointed out that the IMF applies different strictness standards to different countries as a function of the narrow economic and geopolitical priorities of large Western donors.³² This latter point taps into the broader debate between realists and institutionalists about the extent to which international organizations pursue public goods or simply serve the narrow interests of their largest shareholders.

Based on the Fund's track record in Latin America and Eastern Europe, this book suggests that the answers to these debates depend to a large extent on the regional and temporal context. From the perspective of flexibility, the comparative evidence suggests a mixed picture: On one hand during the post-communist transition, the Fund paid greater attention to political context and domestic program ownership than during the Latin American debt crisis of the 1980s, where domestic concerns were overshadowed by the emphasis on debt repayment. On the other

²⁷ See, e.g., De Grauwe and Frattiani 1984, Weintraub 1983, Feldstein 2002.

²⁸ Payer 1974, Koerner 1986, Pastor 1987.

²⁹ Sachs 1994, Remmer 1998.

³⁰ Buira 1983, David 1985, Pollack 1991.

³¹ Edwards 1989, Stiglitz 2000.

³² See, for example, Stiles 1991, Killick 1995, Thacker 1999, Stone 2002, Dreher and Jensen 2006.

hand, the much larger number of structural conditions in the IMF programs of the 1990s (especially among the transition economies) suggest a more intrusive approach to conditionality, which was combined with a lower tolerance for heterodox economic policies (as illustrated by the Slovak case in chapter 4).

From the perspective of impartial enforcement, this book confirms that when it comes to IMF programs not all countries are created equal. Unlike earlier works, however, the present analysis differentiates between narrow “realist” and systemic deviations from technocratic impartiality, and shows that the severity of both types of deviations depends on the international context. Thus, during the Latin American debt crisis, systemic concerns about international financial stability predominated and contributed to special treatment for large debtors but only when such countries were facing severe crises. In the context of the international financial boom of the 1990s, systemic concerns were less prominent but preferential treatment in Eastern Europe reflected Western concerns about the region’s geopolitical reorientation.

Comparative Political Economy of Economic Reforms

Through its analysis of domestic political dynamics of IMF program initiation and implementation this book addresses a number of broader theoretical questions related to the politics of economic reforms. The book confirms earlier arguments that deeper initial economic crises facilitate the initiation and implementation of market-oriented reforms³³ but it also suggests that the salience of different crisis aspects depends on the broader regional and temporal context; whereas inflationary crises contributed to IMF program initiation and implementation during the Latin American debt crisis and the post-communist transition, the same was not true for Latin America in the 1990s. Similarly—as one would expect—debt service payments played a greater role during the debt crisis than during the 1990s, while reserve levels were more salient in cash-strapped Eastern Europe than in Latin America.

Moreover, both the statistical tests and several of the cases discussed in this book (e.g., Bolivia in 1982–85, Peru in 1987–89) suggest that countries often fail to implement reforms despite experiencing long periods of severe economic crisis. By themselves, economic crises are not sufficient to trigger reforms in the absence of governments willing and able to use these crises as catalysts for decisive economic policy changes. The theoretical emphasis on the temporal and regional variation in the interaction

³³ See, for example, Stallings and Kaufman 1989, Nelson, 1990, Rodrik 1994, Haggard and Kaufman 1995, Remmer 1998.

between economic crises and domestic politics engages the broader debate about the importance of partisan differences on economic policy making in the context of globalization. While this question has attracted a fair amount of scholarly attention, most studies have focused on advanced industrial countries,³⁴ and their findings about the temporal dynamics of partisan differences have been contradictory.³⁵ More recently, a few studies have shown that partisan politics has affected the trajectories of neoliberal reforms in both Latin America (Remmer 1998, Murillo 2002, Murillo and Schrank 2005) and Eastern Europe (Appel 2004, Frye 2002). However, none of these studies engage in explicit cross-regional and cross-temporal comparisons of partisan political dynamics, and they do not address the crucial theoretical question about the interaction between partisanship and crisis intensity in driving economic reforms. Moreover, partisanship has played a relatively marginal role in statistical analyses of IMF programs with the notable exception of Stone (2002).³⁶

In contrast, I find that partisan politics do matter but that their salience and temporal evolution vary by region: in Latin America the ideologically polarized reactions to the IMF interventions of the 1980s were followed by a significant decline in partisanship during the 1990s and renewed polarization since 2001. Meanwhile, ideology played a relatively modest role in Eastern Europe in the 1990s, and there is no clear sign of a rebirth of a more assertive left along Latin American lines. More importantly, I show that partisan differences do not have a uniform effect on IMF programs but instead depend on context-specific interactions with the intensity of the economic crisis. Thus, if there exist alternative ideologically based crisis interpretations and solutions (such as during the Latin American debt crisis) then partisan differences are exacerbated by economic crises. Meanwhile, if the Fund's monopoly on crisis management solutions is largely unchallenged (as it was during the Washington Consensus of the 1990s) then partisan differences are more likely to be abandoned in the face of economic emergencies (as occurred in both Eastern Europe and Latin America after 1990). Moreover, partisan differences also depend on the nature of the crisis, with some crises (such as low

³⁴ See inter alia Alvarez et al. 1991, Simmons 1994, Garrett 1998, Bernhard and Leblang 1999, Pierson 2001, Huber and Stephens 2001, Kwon and Pontusson 2005, Milner and Judkins 2005.

³⁵ Thus, Pierson 2001 and Huber and Stephens 2001 find that the effect of government partisanship has declined since the 1970s with respect to social policy outcomes, whereas Kwon and Pontusson 2005 show that partisan effects increased from the 1970s to the mid-1990s but then declined dramatically afterward.

³⁶ Vreeland's 2003 argument about conditionality-seeking governments highlights the importance of domestic political interests, but he uses fiscal deficits rather than government orientation as an indicator of domestic political will, which suggests that his results should not necessarily be interpreted in partisan terms.

liquidity) less likely to trigger ideological disagreements than other more contentious economic problems (such as high debt service burdens).

This book also addresses the question of whether democratic politics and neoliberal economic reforms are compatible. Much of the work drawing on the experience of the 1980s noted that authoritarian regimes had generally been more successful in implementing reforms,³⁷ while others questioned the ability of democracies to overcome the popular resistance toward the high short-term costs of economic reforms (Przeworski 1991). On the other hand, several studies of the post-communist transition have emphasized the positive correlation and reinforcing nature of political and economic reforms in the former communist countries.³⁸ The present analysis confirms that democracy was hard to reconcile with IMF-style reforms during the Latin American debt crisis but was no longer an obstacle in Latin America in the 1990s and even improved the program implementation prospects in East European countries. These different outcomes can be traced to differences in how economic crises were perceived by elites and citizens: In Latin America the roots of the debt crisis were widely perceived as being of an external nature, which resulted in a lower willingness to bear the economic costs of adjustment policies and made it much more difficult for governments to implement reforms in a democratic context. Meanwhile, in Eastern Europe the domestic roots of the economic crises were much less disputed, and, therefore, voters were more likely to support or at least tolerate neoliberal reforms despite their considerable short-term costs.

Econometric Assessments of IMF Program Effects

The group of studies most directly concerned with IMF programs has grown out of policy concerns about the economic, political, and social repercussions of IMF programs, and has focused primarily on econometric assessments of program effects. Despite the steadily growing number of such studies, the evidence from the various large-N analyses has so far been largely inconclusive and contradictory. The only relatively robust finding of this literature is that IMF programs are generally effective in terms of one of their primary tasks: improving the overall balance of payments position of program countries.³⁹ However, with respect to other

³⁷ See Kaufman and Stallings 1989, Sheahan 1987. On the other hand Remmer's (1996) analysis of Latin America has argued that authoritarian regimes had no advantage over their democratic counterparts in terms of either political stability or economic performance.

³⁸ Fish 1998, Bunce 1999, but see Kurtz and Barnes 2002.

³⁹ See, for example, Gylafson 1987, Khan 1990, Pastor 1987, and Killick 1995. For some other studies, however, these improvements failed to reach statistical significance (Edwards 1989, Goldstein and Montiel 1986).

significant repercussions, such as program effects on inflation,⁴⁰ economic growth,⁴¹ savings rates, and income inequality,⁴² findings have generally been contradictory or inconclusive.

While this book is not directly concerned with econometric assessments of IMF program effects, its approach nevertheless has important implications for this literature. First, the book's emphasis on the politics of IMF programs should help correct for the fact that many of these studies "relegate the discipline of political science to the error term" (Stone 1999:4). While a number of recent works have started to address this issue,⁴³ a recent review of the literature emphasizes that our understanding of the politics of IMF lending is still tentative and rudimentary (Steinwand and Stone 2008).

Second, compliance with IMF conditionality has been consistently low,⁴⁴ and even though this has been widely acknowledged,⁴⁵ the large-N "IMF effects" literature has largely ignored the different degrees of compliance with IMF programs.⁴⁶ But ignoring the politics of program compliance is the logical equivalent of trying to assess the effectiveness of a drug without asking whether or not the patient took the prescribed drug, and what his/her reasons were for taking or not taking it. The present analysis of the economic and political drivers of compliance not only contributes to a better theoretical understanding of IMF programs but may also help with the design of politically more feasible IMF programs. Political feasibility and program completion are particularly important since, as Joel Hellman (1998) has argued in the case of transition economies, partial reforms may actually produce worse results than avoiding reforms altogether.

Finally, the explicit cross-temporal and cross-regional comparative analytical approach of this book questions the implicit assumption of

⁴⁰ Thus, Stone (2002) and Donovan (1982) found statistically significant improvements in the inflation records of program countries, but most other studies were inconclusive (Khan 1990, Killick 1995, Gylafson 1987, etc.), and Pastor 1987 actually detected a statistically significant increase of inflation for Latin American IMF programs.

⁴¹ Przeworski and Vreeland 2000 and Vreeland 2003 find that IMF programs result in significant economic contractions but earlier studies in the yielded much weaker results (Pastor 1987, Goldstein and Montiel 1986, Killick 1995).

⁴² See, for example, Pastor 1987, Heller et al. 1988, and Loxley 1984, though more recent work by Vreeland 2003 finds that IMF programs result in higher inequality.

⁴³ See, for example, Thacker 1999, Stone 2002, Vreeland 2003.

⁴⁴ Less than half of Latin American programs in the 1980s were fully implemented and the former communist countries in the 1990s fared no better.

⁴⁵ Reichmann 1978, Heller 1988, Edwards 1989, Killick 1995.

⁴⁶ More recently, a few studies have started to pay closer attention to compliance patterns (Edwards 2001, Ivanova et al. 2003) but the political dynamics of compliance are still significantly understudied.

much of the IMF-effects literature that IMF programs can be considered uniform treatments across space and time. Returning to the earlier medical analogy, this book shows that the nature of the treatment has changed over time (as IMF conditionality has evolved in response to the changing international economic and political environment), and that even similar treatments can provoke very different results depending on patient-level characteristics, such as domestic partisan politics or the quality of bureaucratic institutions.

Structure of the Book

The book is structured as follows: Chapter 2 develops a theoretical model of IMF program initiation and implementation, which builds on a formal model (presented in the appendix) and provides a systematic analysis of how the interaction between the IMF and program country governments is affected by key parameters of the domestic and international environment. The model yields a series of hypotheses that specify a number of important interaction effects between different domestic and international drivers of IMF programs and provide the basis for a more nuanced and targeted empirical analysis in the statistical and case study chapters.

The empirical part of the book is divided into three sections. The first section explores the international dimension IMF programs during the Latin American debt crisis and the post-communist transition. It analyzes how developing country governments respond to external crises and international market incentives, and how the Fund's response to such crises is influenced by systemic concerns for international financial stability and by the narrower economic and geopolitical concerns of large IMF donors. The comparison illustrates how the changes in the international context between the debt crisis of the 1980s and the post-Cold War "Washington Consensus" of the 1990s led to important variations in the economic and political dynamics of IMF programs in the two episodes. Chapter 3 presents the statistical results of the drivers of IMF program initiation, design and compliance in twenty-one Latin American and Caribbean countries 1982–89 and twenty-six ex-communist countries 1990–2001. The case study evidence from four Latin American (Argentina, Bolivia, Chile, and Peru) and two Eastern European countries (Moldova and Slovakia), which is presented in chapter 4, illustrates the statistical findings from the preceding chapter, and provides a more detailed account of the opportunities and constraints faced by the countries of the two regions as a function of their economic and geopolitical status.

The second section focuses on the domestic politics of IMF program initiation and implementation during the two main crisis episodes. Chap-

ter 5 analyzes the statistical patterns of the complex interaction between economic crises, partisan concerns, and institutional constraints that drive the dynamics of IMF programs. Chapter 6 revisits the six cases discussed in chapter 4 and adds a paired comparison between Romania and Bulgaria.

The third section (chapter 7) broadens the scope of the comparative analysis developed in chapters 3–6 by focusing on the political dynamics of IMF programs in Latin America 1990–2001. Since this third cluster of programs represents a combination between the international political and economic environment experienced by the ex-communist countries in the 1990s and many of the domestic economic and political characteristics of Latin America in the preceding decade, this comparison provides better analytical leverage for understanding the roots of the important differences in the political economy of IMF programs discussed in the preceding chapters.

The final chapter synthesizes the theoretical contributions and empirical results of the book, not only for understanding the politics of IMF programs but for more broadly understanding the political economy of neoliberal economic reforms in the developing world. The conclusion also discusses the policy implications of these findings for the design of more politically feasible IMF programs, in the context in which, despite a number of recent calls for its demise, the IMF is likely to remain a key intermediary between developed and developing countries in the context of increasingly complex international financial markets.