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Crisis in the Eye of the Beholder

Economic Crisis and Partisan Politics in Latin American and East European International Monetary Fund Programs

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This article analyzes the interaction between economic crises and partisan politics during International Monetary Fund program initiation in Latin America in the 1980s and Eastern Europe in the 1990s. The author argues that economic crises are at least in part in the eye of the beholder, and therefore policy responses reflect the interaction between crisis intensity and the government's partisan interpretation of the crisis, which in turn depends on the nature of the economic crisis and its broader regional and international environment. Using cross-country statistical evidence from the two regions, the article shows that certain types of crises, such as liquidity shortfalls, elicit similar responses across the ideological spectrum and regional contexts. By contrast, debt repayment and domestic crises are more prone to divergent ideological interpretations, but the extent of partisan divergence is context sensitive in that it occurred during the Latin American debt crisis but not in the post-communist transition.

Keywords: *economic crisis; International Monetary Fund; economic reform; partisanship; Eastern Europe; Latin America*

Why do governments subject themselves to the rigors of International Monetary Fund (IMF) conditionality and initiate drastic economic adjustment policies? IMF-style reforms often impose significant economic costs on program countries (Vreeland, 2003) and exact heavy political costs from the governments implementing them. The most prominent explanation of IMF program initiation (see, e.g., Bird & Orme, 1981; Bird, 1995; Cornelius, 1987; Knight & Santaella, 1997) and of neoliberal reforms more broadly (Haggard & Kaufman, 1995; Nelson, 1990; Ranis & Mahmood,

1992; Remmer, 1998; Rodrik, 1994; Stallings & Kaufman, 1989) has pointed to the strong empirical link between economic crises and economic reforms. One important reason for this link is that deep crises can help create a societal consensus in favor of reforms while weakening the economic and political benefits of previous rent-seeking activities (Drazen & Grilli, 1993; Williamson, 1994). Alternatively, the reform impetus may simply reflect the fact that governments of crisis-riddled countries have few options other than to submit to the policy conditions of international financial institutions in their pursuit of economic relief.

However, governments do not react uniformly to economic crises: Some respond with rapid and drastic reforms (Poland in 1990, Bolivia in 1985-1986), whereas others either ignore the crises (Peru in 1987-1989) or seem incapable of tackling them decisively (Bolivia in 1982-1984). Why does economic crisis result in political action in some settings but not in others? Although previous work has shown that the impact of economic crises on reforms is mediated by domestic political factors such as incumbency status (Weyland, 1998), electoral concerns (Murillo & Le Foulon, 2006), or domestic veto players (Henisz & Mansfield, 2006), this article focuses on the crucial role of partisan politics in determining how governments react to economic crises. In particular, I argue that economic crises are at least in part in the eye of the beholder, and therefore policy responses reflect not only the intensity of the economic crisis but also the extent to which the IMF's policy prescriptions are compatible with the government's partisan interpretation of the crisis roots and solutions. Besides the government's ideological orientation, the extent of this compatibility is also driven by the nature of the economic crisis and the broader regional and international environment within which a given crisis unfolds.

To illustrate the effects of partisan politics in shaping the crisis-reform link, this article analyzes the politics of IMF program initiation in two of the most prominent clusters of IMF interventions in recent decades: Latin America during the 1980s and the countries of the former Soviet Bloc in the 1990s. The comparison confirms that the policy repercussions of economic crises depend to a great extent on how domestic actors interpret the roots and optimal political solutions to these crises, but it also suggests that the nature of this interaction is highly context sensitive. Thus, certain types of crises—such as low international reserves—fall clearly into the Fund's perceived area of technocratic competence as an international lender of last resort and therefore promote IMF-style reforms for governments across the political spectrum. For other types of crises, such as recessions, inflation, and high debt service burdens, the Fund's emphasis on fiscal austerity and

timely debt repayment has been called into question as being theoretically misguided and/or unfair toward developing countries. Therefore, such crises are more prone to divergent ideological interpretations, as right-wing governments eagerly apply the IMF's policy prescriptions, whereas leftist governments are much more reluctant to do so and at times explicitly reject IMF orthodoxy. However, the intensity of such divergence largely depends on the regional and temporal context, as partisan differences in the face of economic crises were much more resilient during the Latin American debt crisis than during the post-communist transition.

The article first introduces a theoretical framework for studying the interaction between objective economic crisis conditions and partisan politics as drivers of IMF programs and neoliberal reforms. The second part discusses the domestic and international roots of the economic crises experienced by the countries of the two regions and uses comparative cross-country statistical evidence to identify the political circumstances under which governments initiated IMF programs in the face of varying degrees of economic pressures.

Economic Crises and IMF-Style Reforms: A Theoretical Framework

For all the political and scholarly preoccupation with the roots and consequences of economic crises, there is no clear consensus on how to conceptualize and diagnose such crises. The most consistent body of work has emerged from the efforts of economists to predict currency crises in the aftermath of the Mexican Tequila crisis of 1994 and the East Asian financial crisis of 1997 (Frankel & Rose, 1996; Kaminsky, Lizondo, & Reinhart, 1998; Sachs, Tornell, & Velasco, 1996). However, for obvious reasons, these studies have focused on indicators related to currency crises (exchange rates and reserves) rather than on other economic crisis aspects. Others have attempted to establish debt burden thresholds (Reisen, 1989), but Reinhart, Rogoff, and Savastano (2003) challenge the applicability of thresholds from advanced countries to the developing world and propose country-specific debt thresholds. Similarly, there is no clear consensus about crisis thresholds with respect to inflation, with some analysts (Bruno & Easterly, 1995; Milner & Kubota, 2005; Reinhart et al., 2003) identifying inflation levels of 40% as the crisis threshold, whereas others set this threshold much lower (Ghosh & Phillips, 1998) or focus primarily on hyperinflation (Weyland, 1998). Despite these disagreements, the political

economy literature on the crisis–reform link uses a variety of economic indicators as crisis markers without discussing what makes a crisis a crisis, thereby implicitly assuming a direct and uniform link between these economic indicators and reforms.

In recent years, a few authors have started to question this assumption and have identified domestic political factors that mediate the policy pressures inherent in economic crises: Thus, Weyland (1998) argues that only the combination of extreme crises and new political leaders can overcome the status quo bias inherent in economic policies, Murillo and Le Foulon (2006) show that the reform impetus of economic crisis in the Chilean electricity sector was mediated by the short-term time horizons due to pre-election political concerns, whereas Henisz and Mansfield (2006) emphasize the importance of domestic veto players in mediating economic pressures. Nonetheless, such explanations only capture part of the story, given that economic adjustment efforts under IMF auspices have not been limited to new governments in desperate economic straits¹ or to particular constitutional arrangements.

This article explores a hitherto neglected dimension of the crisis–reform link by building on the insight that—like beauty—economic crisis is often in the eye of the beholder. Even though psychologists and more recently political scientists (Herrera, 2005) have identified significant gaps between objective economic conditions and subjective perceptions thereof, this question has received surprisingly little attention in the political economy literature on economic crises.² Most important, political scientists have ignored the obvious starting point for explaining uneven policy reactions to economic crises: the partisan political orientation of key decision makers. Of course, a number of political economy analyses have emphasized the role of ideological and partisan considerations, especially in advanced industrial democracies (Huber & Stephens, 2000; Kwon & Pontusson, 2005). For economic reforms in developing countries, a few small-*N* studies (Appel, 2004; Murillo, 2002) have found evidence of partisan effects, but much of the extensive large-*N* literature on the subject has ignored ideology altogether. Among the few exceptions in this respect, the evidence is mixed: Although Remmer (1998), Frye (2002), and Stone (2002) found evidence that leftist governments were less eager to initiate market reforms, other analyses produced inconclusive results (Bernhard & Leblang, 1999; Biglaiser & DeRouen, 2004; Williamson, 1994). More important, none of these studies focuses on the interaction between government orientation and economic crisis and therefore implicitly assume that ideology matters uniformly across a variety of different economic situations. Moreover, none

of these studies accounts for the possibility that partisan policy effects could vary across regions and time periods.³

This article proposes a synthesis between crisis and partisanship explanations of economic reforms by analyzing the interplay between objective economic crisis indicators and the political orientation of the government in power at the time of the crisis. I argue that for a crisis to trigger IMF-style reforms, the governing parties have to agree with the Fund's crisis diagnosis and policy prescriptions, or at a minimum, their disagreements have to be weaker than the perceived benefit of IMF assistance. Thus, partisan politics filter the reform pressures of crises in two critical ways that explain why the same outward crisis symptoms may trigger decisive reforms from some governments but not others: First, politicians of different ideological persuasions may interpret the crisis roots and solutions in fundamentally different ways, which translate into different propensities to resort to IMF programs to redress the situation, as the Right is more likely to agree with the Fund's crisis diagnosis than the Left. A related but nonetheless distinctive mechanism of partisan differentiation in crisis responses is that depending on their partisan ties and constituencies, parties are likely to differ in their readiness to accept the redistributive implications of IMF-style adjustment policies, as the Left is more sensitive to the well-known regressive distributional consequences of IMF programs (Vreeland, 2003). This interpretation echoes the findings of a well-established literature (Collier & Collier, 1991; Levitsky, 2003; Murrillo & Schrank, 2005; Roberts, 2002) about the importance of labor-based parties in Latin America.

If mainstream political elites broadly agree with the Fund's crisis diagnosis in a given regional and temporal context, then economic crises should increase the likelihood of IMF-style reform initiation for governments across the political spectrum. Such similar crisis responses can occur either because ideological alternatives to the neoliberal policy paradigm have been effectively discredited (as arguably happened during the years following the collapse of Communism) or because certain types of crises do not lend themselves as easily to divergent political interpretations. Under such circumstances, we should observe two possible patterns: the first pattern, crisis-driven policy convergence, is characterized by significant policy differentiation in low-crisis environments, but these differences decline under the pressure of severe economic crises, as parties subordinate their ideological platforms to the pragmatic imperatives of dealing with economic duress. Alternatively, if political platforms are largely rhetorical window dressing, then crisis reactions should reflect technocratic uniformity, whereby economic crises uniformly promote IMF programs and parties of different

political orientations pursue similar policies across a variety of economic environments. Meanwhile, in environments with genuine ideological differences and strong partisan ties, we should expect to see crisis-driven policy divergence at least for those crisis aspects whose nature is open to divergent interpretations. Under such circumstances, ideological differences become particularly apparent during severe economic crises, as right-wing governments agree with the Fund's crisis diagnosis and are more likely to initiate IMF programs, whereas left-leaning governments opt for heterodox alternatives that are harder to reconcile with IMF conditionality.

Crisis and IMF Programs in Latin America and Eastern Europe

The preceding theoretical discussion suggests that economic crises do not necessarily translate uniformly into economic reform initiatives but that the policy repercussions depend on the type of economic crisis and on the domestic and international political context in which a crisis unfolds. This section analyzes the drivers of IMF program initiation in two large-scale episodes of economic reforms under IMF auspices—Latin America in the 1980s and Eastern Europe in the 1990s—to test these theoretical predictions across a range of crisis indicators and political contexts. This approach departs from most statistical analyses of IMF programs (Barro & Lee, 2002; Conway, 1994; Reichmann & Stillson, 1978; Thacker, 1999; Vreeland, 2003) by analyzing two temporally and geographically bounded country clusters rather than a sample spanning a broad range of countries and time periods. By doing so, the analysis can capture cross-regional and cross-temporal differences in the crisis–reform link in addition to the cross-country differences analyzed by most statistical analyses of IMF-style reforms.

The choice of Latin America in the 1980s and the former Soviet Bloc in the 1990s was based on several considerations.⁴ First, as the two most extensive episodes of IMF interventions in recent history, the countries of the two regions offer significant variation in both the dependent and the key independent variables. Second, the two regions displayed similar socioeconomic development levels, which made them more comparable to each other than each of them would have been to Africa, for example. Third, the Latin American debt crisis and the post-communist transition are substantively interesting junctures in the development of the two regions in that they involved massive economic reforms in the context of democratic transitions.

At the same time, the two crises differed significantly in terms of their domestic and international political context and thus provide an ideal empirical setting for illustrating the context-specific nature of the crisis–reform link theorized in this article. In terms of international financial markets, the virtual freeze of voluntary commercial lending to most developing countries in the 1980s stands in clear contrast to the lending boom of the 1990s. As a result, IMF programs in the 1990s had greater potential for unlocking significant amounts of private-sector funding, whereas in the 1980s such programs were generally associated with higher debt repayments and thus created a zero-sum logic between creditors and debtors. Politically, the 1980s marked the final phase of Cold War bipolarity in both ideological and geopolitical terms. Despite the gradual decline of the Soviet bloc and Marxism in the 1980s, neoliberal economics did not enjoy the hegemonic dominance it was to achieve in the 1990s. The greater ideological pluralism of the 1980s created the intellectual background for the different ideological interpretations of the debt crisis in Latin America.

In Latin America, the most visible crisis aspect was the high external indebtedness of most countries in the region. The debt crisis started officially with Mexico's default in August 1982, and because both the trigger of the crisis and several aggravating circumstances were of an external nature,⁵ many analysts initially interpreted the debt crisis primarily as a temporary external payments crisis, which did not require a fundamental revision of the region's developmental strategy (Jorge, 1985, p. 11). The resulting ambiguity about the nature and the roots of the region's economic crisis created the potential for divergent interpretations of the crisis by governments of different orientations: Thus, the high debt service burden and inflation could be interpreted either as the result of past fiscal profligacy by Latin American governments or as a side effect of Western attempts (via IMF conditionality) to place the adjustment burden on the shoulders of impoverished debtors (Pastor, 1989). Similarly, the region's poor growth record could be blamed on inefficient state sectors or on the recessionary impact of IMF-style adjustment. Therefore, the theoretical framework developed in the preceding section would predict crisis-driven policy divergence between governments of different political persuasions. However, such divergence should only occur with respect to those crisis aspects, which are open to different ideological interpretations, such as inflation, growth, and foreign debt. Meanwhile, more objective measures of economic distress, such as low foreign reserves, should push governments toward IMF-style adjustment regardless of their political orientation, thereby leading to crisis-driven policy convergence.

The primary economic challenge of the post-communist transition was undeniably domestic: the wholesale structural economic transformation of the former command economies. After more than a decade of economic stagnation in the 1980s, communist ideology was sufficiently delegitimized by the early 1990s that the economic reform debates of the transition focused on questions of timing, sequencing, and speed rather than disagreements about the roots and severity of the economic crisis. Despite occasional rhetorical flourishes, mainstream post-communist politicians rarely questioned that the roots of the crisis lay primarily in communist-era domestic distortions and parties were largely unconstrained by partisan ties to a largely disorganized organized labor. Therefore, despite the high economic and political costs of IMF-style reforms, the political dynamics of these reforms were not as ideologically charged as in Latin America a decade earlier, and the IMF was viewed as a reform overseer rather than as a debt collector. Although Frye (2002) finds that East European excommunists and reformers pursued different economic policies in the 1990s, I expect that these policy differences should be less pronounced in Eastern Europe than in Latin America, especially during extreme economic crises, when similar ideological crisis interpretations should lead to crisis-driven policy convergence.

The Outcome: IMF Program Initiation

The dependent variable in this analysis is the initiation of a Standby or Extended Fund Facility agreement between a given country and the IMF.⁶ IMF programs have spawned a large academic literature, both because of their intrinsic theoretical and policy importance and because they provide crucial insights into the broader dynamics of economic reforms. Even though IMF programs are neither necessary nor sufficient for successful neoliberal reform programs, the Fund has significantly shaped the nature and timing of neoliberal reforms in the two regions. Because even home-grown reform efforts were usually accompanied by Fund support, IMF program initiation can be seen as an indicator for the onset of neoliberal reform efforts, and it has the advantage of being more easily observable and less vulnerable to post hoc judgments than other attempts to code economic reforms. The Fund's inflexibility toward country-specific factors actually reinforces the utility of IMF programs as an indicator of reform initiation because it implies a uniformity of standards that would be difficult to achieve by coding the economic policies of different countries.⁷ Moreover, although economic crises may promote IMF programs for both IMF "push"

and country “pull” reasons, the interaction between partisan politics and economic crisis analyzed here arguably affects primarily the government’s decision to whether or not enter an IMF agreement.⁸

From 1982 to 1989, the 22 Latin American and Caribbean countries analyzed in this article initiated a total of 43 high-conditionality IMF programs and spent an average of 36% of their time covered by a program. The experiences of individual countries ranged from complete avoidance (six countries, including Cuba and Venezuela) to quasipermanent involvement (seven countries, including the region’s three largest debtors: Brazil, Mexico, and Argentina). Even by the high standards of the Latin American debt crisis, the Fund’s role in the post-communist transition was remarkable in its ubiquity. The 26 transition countries in my sample⁹ “collected” a remarkable 74 programs from 1990 to 2001, ranging from avoidance (in only two countries: Slovenia and Turkmenistan) to a much larger group of frequent or quasipermanent candidates, which included advanced reformers (Estonia, Latvia, and Lithuania), but also eternal candidates (Russia, Romania, Bulgaria, and Moldova) whose stop-go reform cycles resembled the Latin American pattern. An overview of the statistical indicators used in this article is presented in Table 1.

Economic Crises: Patterns and Measures

Governments rarely resort to IMF programs unless driven by the pressure of economic crises.¹⁰ Following earlier work, this analysis uses cross-national indicators of both domestic and external economic crises. Unlike earlier work, however, this article explicitly tests the circumstances under which domestic political actors interpret objective economic indicators as economic crises requiring corrective economic policies. First, the cross-regional comparative approach of this analysis allows for the possibility that different types of crises could be more salient in certain regional and temporal contexts due to changes in the international political and economic environment. Second, the emphasis on the interaction between economic indicators and domestic political interests tests the article’s claim that economic crisis is at least to some extent in the (ideological) eye of the beholder.

To capture the intensity of domestic economic crises, the statistical tests focus on two key indicators: economic growth and consumer price inflation. Because the frequent and severe recessionary and inflationary crises of the debt crisis and the post-communist transition affected most inhabitants of the two regions in a very immediate sense, these two crisis aspects were arguably the most visible and politically salient domestic economic crisis

Table 1
Variable Overview and Operationalization

Variable	Operationalization	Source
New agreement	1 if IMF agreement signed in a given quarter, 0 if otherwise	Author's coding based on IMF Survey
Inflation	Ln (15 + CPI in previous quarter)	International Financial Statistics
GDP change	Percentage change in GDP in previous year	World Development Indicators
Reserves and imports	International reserves (previous quarter) / Imports (previous year) in months	International Financial Statistics
Interest / GNP	Interest payments / GNP (previous year) – logged	Global Development Finance
Government ideology (Latin America)	0 (<i>Right</i>) – 4 (<i>Left</i>) – coalitions as weighted averages based on seat share	Coppedge (1995) + author's coding
Labor-based party government	1 – Labor-based party in government, 0 if otherwise	Roberts (2002), Murillo and Schrank (2005) + author's coding
Antireform government (Eastern Europe)	1 – ex-communist or nationalist-populist government), 0 if otherwise	Author
Government ideology (Eastern Europe)	–10 (<i>Left</i>) → + 10 (<i>Right</i>)	Stone (2002)
Regime	DEM score – AUT score +10 → 0 (<i>low</i>) to 20 (<i>high</i>) scale	Polity database
Political constraints	0 (<i>lowest</i>) → ¹⁹ / ₂₁ (<i>highest</i>)	Henisz (2000)
New government		
IMF program history	Percentage of time spent under IMF agreements in 10 years prior to current year	Author's coding based on IMF Survey data
Bureaucratic quality	0 (<i>low</i>) to 5 (<i>high</i>)	<i>International Country Risk Guide</i>
Postelectoral period	1 if fewer than four quarters since election, 0 if otherwise	Author
IMF quota	Size of IMF quota in standard drawing rights (logged)	International Financial Statistics
UN voting ($y - 1$)	Percentage coincidence of country's UN voting record with U.S. ($y - 1$; previous year)	U.S. State Department
Change in UN voting	Change in UN voting coincidence with U.S. from $y-2$ to $y-1$	Author's calculations based on U.S. State Department data

aspects. Moreover, inflation and growth are easier to measure consistently across countries and time periods than other crisis indicators, such as budget deficits or unemployment levels,¹¹ and are therefore more reliable measures for cross-country tests. It is not surprising that inflation has figured prominently among the crisis aspects responsible for the initiation of IMF programs and economic reforms more broadly (Bird, 1995; Remmer, 1998; Santaella, 1996; Stone, 2002), even though others (e.g., Cornelius, 1987; Knight & Santaella, 1997) have found the effect to be statistically insignificant or have questioned the theoretical bases of such claims (Corrales, 1997).

The analysis focuses on two main indicators of external crises: In line with the Fund's traditional mission as a short-term provider of balance-of-payments support, the classical crisis signal has usually been the specter of insolvency raised by low international reserves, which has been one of the more consistent drivers of IMF program initiation (Barro & Lee, 2002; Bird, 1995; Bird & Orme, 1981; Knight & Santaella, 1997; Vreeland, 2003). In this respect, the excommunist countries averaged a threateningly low reserve level of 2.2 months of imports, well below the relatively comfortable reserves average of 4 months of imports in Latin American countries, which suggests that liquidity concerns should be more prominent program drivers in the post-communist context.

On the other hand, Latin American countries experienced a much more precarious external debt situation than their excommunist counterparts did. Even more than in terms of overall debt, the two regions differed in the economic burden imposed by the resulting interest payments, which are the second indicator of external crisis used in this article.¹² The heavy fiscal burden of debt repayments was exacerbated by the rising interest rates of commercial bank debt in the early 1980s, and it came as a shock to Latin American countries accustomed to financing their growing deficits through fresh credits during the credit boom of the 1970s. Therefore, many Latin Americans blamed the painful adjustment primarily on Western financial institutions rather than on the fiscal profligacy of the previous decade, and the resulting debate paved the way for a more ideologically charged response to both domestic and external crises than in the transition countries.

Government Orientation

Government orientation indicators are a significant challenge for cross-regional and cross-temporal studies due to the scarcity of comparable data and the differences in party systems and economic orthodoxy. Therefore, I use different measures of government orientation for the two regions: For

Latin America, I use a standard 5-point left–right measure of ideological orientation building on Coppedge’s (1997) expert survey.¹³ Because similar data were not available for Eastern Europe, I used Stone’s 21-point left–right ideology scale. However, Stone’s coverage stops in 1999, and given that several scholars have questioned the utility of the traditional left–right divide in the post-communist context (Tismaneanu, 1996; Tucker, 2006), most of the statistical tests for Eastern Europe use a dichotomous measure that captures what is arguably the key fault line of post-communist politics—whether or not a given party is a successor to the Communist parties. In line with work by Grzymala-Busse (2002) and others, I also differentiated between reformed and unreformed Communist successor parties, but their behavior did not differ systematically, so they were grouped together in the present analysis. In addition, I captured a peculiar type of party (in countries such as Slovakia, Croatia, and Belarus), whose leaders have pursued a nationalist and populist rhetoric and governing style. Finally, I created a composite category—anti-reform parties—which combines the two categories.

To capture the impact of partisan ties as an alternative source of partisan policy preferences, I also analyzed the role of institutional ties of certain political parties to organized labor: Building on Roberts (2002) and Murillo and Schrank (2005), I coded Latin American governments as being labor based if they included a party with established institutional ties to major labor unions in a labor-mobilizing party system (Roberts, 2002). Meanwhile in Eastern Europe, with the partial exception of Poland, Bulgaria, and Hungary (Robertson, 2004), there were no comparable institutional ties between labor unions and major political parties, and therefore a similar measure of labor-based parties makes much less sense.

Additional Factors and Explanations

Ideological or crisis-driven government policy intentions are not sufficient for the initiation of IMF-style reforms. Governments also need to be able to develop coherent economic strategies and to translate these policy designs into political reality, and one of the crucial factors affecting this process is the effectiveness of bureaucratic institutions. It is somewhat surprising that this important aspect of the reform process has been ignored almost completely by earlier statistical work on the subject.¹⁴ To measure this concept for the transition countries, I use the governance and public administration scores from *Nations in Transit* from 1993 to 2001 (Karatnycky, Motyl, & Schnetzer, 2002).¹⁵ Because similar scores are not available for Latin America, I used annual bureaucratic quality scores from the *International Country Risk Guide* (Political Risk Services, 2001).¹⁶

In line with a large and growing set of explanations of the political economy of reforms, the analysis accounts for some of the key aspects of domestic political competition, which may promote or hinder reform initiation. The most obvious indicator in this respect is regime type, which has figured prominently in analyses of IMF program dynamics (Bird & Rowlands, 2001; Remmer, 1986; Stone, 2002, 2004) and of economic reforms more broadly (Haggard & Webb, 1994; Kaufman & Stallings, 1989). In this analysis, I used the 21-point Polity regime score, which captures the institutional dimension of political regimes and is more appropriate than Freedom House's rights-based approach. Given earlier findings about the importance of veto players in obstructing reforms (Orenstein, 2000; Tsebelis, 1995), I also included Henisz's (2000) measure of political constraints in some of the statistical models.¹⁷ Third, to test Weyland's (1998) claim about the greater propensity of new governments to tackle crises, I coded the four quarters following an election as a postelectoral period and interacted it with crisis intensity.

Finally, the statistical models capture several important aspects of IMF involvement in developing countries. First, the regressions control for indicators of potential IMF lending bias in favor of economically and/or politically privileged countries. Following Barro and Lee (2002) and Stone (2002), I have included the log of a country's IMF quota as a measure of economic importance. Moreover, in line with Thacker (1999), the regressions include two measures of a country's cooperation with U.S. geopolitical interests: the degree of coincidence between a given country's voting record and U.S. votes in the UN General Assembly and the relative movement vis-à-vis the United States in the preceding year.¹⁸ Second, given earlier findings about the importance of recidivism in IMF lending (Bird, 1995; Bird, Hussain, & Joyce, 2004; Conway, 1994), the regressions include an IMF program history indicator, reflecting the frequency of a country's past IMF involvement.

Statistical Tests

The statistical tests in Tables 2a and 2b present the results of two sets of time-series cross-sectional tests of IMF program initiation using quarterly data for 22 Latin American countries between 1982 and 1989, and 26 excommunist countries from 1990 to 2001. The use of quarterly data instead of the yearly statistics used by most large-*N* studies of IMF programs¹⁹ facilitates a more fine-tuned understanding of the short-term dynamics of IMF

programs. Because most IMF programs are between 12 and 18 months long and disbursements are usually made on a quarterly basis, much of the crucial short-term variation is likely to be washed out in tests using yearly data. Similar considerations are at play when dealing with political variables, which may change dramatically over the course of a year.

Given the dichotomous nature of the dependent variable, I used random effects time-series cross-sectional logit models. To deal with the temporal dependence inherent in IMF programs, all the statistical models include a nonevent duration measure and cubic time splines as recommended by Beck, Katz, and Tucker (1998). The regressions include year dummies to control for temporal variations in IMF conditionality. Country dummies were not included because we are interested in both the cross-country and the within-country variations in the factors driving compliance with IMF programs. However, the inclusion of IMF program history in the model specification should capture any unobserved structural drivers of IMF programs.

The statistical results confirm the importance of domestic economic crises for IMF program initiation. According to Models 1 and 2 in Tables 2a and 2b, governments of both regions were more likely to turn to the IMF when experiencing high inflation (significant at .05). The logged version of inflation used in Model 1 generally produced results that were on par or stronger than a variety of inflation threshold specifications, including the 500% threshold presented in Model 2. This finding suggests that counter to Weyland's emphasis on the importance of hyperinflationary episodes, policy reactions to inflationary crises in the two episodes were a relatively continuous process. Recessions were also associated with more frequent IMF program initiation according to Model 3, but the effects were substantively larger and only achieved statistical significance (at .01) in Eastern Europe. The weaker effects in Latin America arguably reflect the fact that Fund's emphasis on debt repayment and fiscal austerity was hardly promising as a cure for the region's weak growth performance.

Models 1 through 3 in Table 2a and 2b also confirm the importance of external financial crises as catalysts of IMF program initiation in the two regions. In line with the Fund's lender-of-last-resort function, countries with low hard currency reserves were much more likely to initiate IMF programs: Even though the substantive effect was slightly larger in cash-strapped Eastern Europe, countries in both regions experienced a large and statistically significant (at .01 or better) program initiation impetus when threatened by insolvency. The higher salience of debt in the political economy of Latin America in the 1980s than in the post-communist transition is also reflected in the statistical results: Interest payments had a much

Table 2a
Program Initiation in Latin America

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
Inflation	.335* (.180)			.937** (.387)	.553** (.235)		.268 (.188)	.447** (.206)	.343* (.178)	.212 (.229)
Inflation > 500%		1.853** (.859)								
GDP change			-.036 (.045)			-.100* (.069)				
Reserves	-.273*** (.099)	-.339*** (.109)	-.257*** (.097)	-.293*** (.108)	-.358*** (.111)	-.264*** (.099)	-.264*** (.099)	-.370*** (.112)	-.143 (.172)	-.294*** (.107)
Interest/GNP	.863** (.398)	1.057** (.432)	.887** (.415)	.645 (.461)	.945** (.436)	.931** (.431)	1.483** (.692)	.784* (.467)	.835** (.401)	.872** (.409)
Government ideology	-.283 (.191)		-.223 (.190)	.654 (.625)		-.274 (.198)	.335 (.589)		-.078 (.298)	-.353* (.211)
Labor-based party government		-.820 (.560)			1.414 (1.819)			-3.746* (2.201)		
Government Ideology × Inflation				-.253 (.159)						
Labor-Based Party Government × Inflation					-.533 (.406)					
Government Ideology × GDP Change					.039 (.032)					
Government Orientation × Interest/GNP							-.347 (.314)			
Labor-Based Party Government × Interest/GNP								1.407 (1.036)		

Table 2a (continued)

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
Government Ideology × Reserves ($t - 1$)									-.084 (.094)	
Postelection Period × Inflation										.318 (.304)
Postelectoral period								.013 (.037)	.054 (.039)	-1.352 (1.344)
Regime	.041 (.036)	.030 (.035)	.048 (.035)	.054 (.042)	.019 (.035)	.049 (.036)	.046 (.036)			1.349 (.864)
Political constraints										.257 (.219)
Quality of bureaucracy	.257 (.219)	.305 (.223)	.255 (.218)	.230 (.257)	.288 (.228)	.261 (.219)	.154 (.238)	.408* (.236)	.230 (.221)	.119 (.230)
IMF quota	.183 (.229)	.394* (.229)	.275 (.219)	.172 (.244)	.268 (.211)	.285 (.207)	.240 (.234)	.249 (.254)	.199 (.231)	.034 (.048)
UN voting ($y - 1$)	.032 (.049)	.022 (.048)	.008 (.047)	.044 (.050)	.043 (.049)	.007 (.046)	.044 (.050)	.023 (.051)	.036 (.050)	.015 (.060)
Change in UN voting	.008 (.059)	.005 (.060)	.020 (.058)	.000 (.061)	-.011 (.060)	.014 (.058)	.002 (.060)	.020 (.063)	.003 (.059)	2.628*** (.955)
IMF program history	2.720*** (.942)	2.460*** (.933)	2.547*** (.927)	3.133*** (1.136)	2.553*** (.928)	2.461*** (.926)	2.782*** (.942)	2.484*** (.946)	3.031*** (1.013)	
Observations	527	527	527	527	527	527	527	527	527	527

Note: Logistic regression coefficients with standard errors in parentheses.

* p significant at 10%. ** p significant at 5%. *** p significant at 1%. (one-tailed where appropriate)

Table 2b
Program Initiation in Excommunist Countries

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
Inflation	.297** (.134)			.125 (.174)	.283** (.139)		.292** (.133)	.238* (.135)	.299** (.134)	.214* (.151)
Inflation > 500%	.702* (.491)									
GDP change			-.066*** (.022)			-.056** (.026)				
Reserves	-.594*** (.154)	-.625*** (.157)	-.616*** (.153)	-.596*** (.153)	-.606*** (.157)	-.610*** (.153)	-.598*** (.154)	-.606*** (.158)	-.563*** (.185)	-.577*** (.151)
Interest/Gross National Income	.430 (.420)	.531 (.438)	.558 (.435)	.397 (.426)	.567 (.443)	.564 (.436)	.781 (.511)	.574 (.440)	.430 (.419)	.383 (.427)
Antireform government	-.132 (.364)		-.081 (.370)	-1.586 (.965)		-.199 (.402)	.312 (.519)		-.022 (.521)	-.125 (.368)
Government ideology	.050* (.028)				.160** (.081)			.012 (.038)		
Antireform Government × Inflation				.308 (.190)						
Government Ideology × Inflation					-.023 (.015)					
Antireform Government × GDP Change						-.021 (.028)				
Antireform Government × Interest/Gross National Income							-.695 (.575)			
Government Ideology × Interest/Gross National Income								.063 (.048)		

(continued)

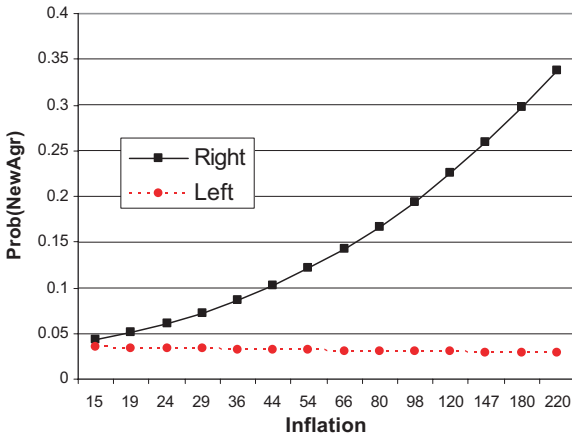
stronger effect on program initiation in Latin America (significant at .05), whereas in Eastern Europe the impact was substantively smaller and only weakly significant (at .1 one-tailed).

Despite some cross-regional variation, the results so far confirm the role of economic crises in program initiation in both episodes. Moreover, the effects of partisan orientation, though pointing consistently in the expected direction, produced relatively modest statistical results: In Latin America, both leftist and labor-based party governments were less likely to enter IMF programs, but the effect was at best marginally significant (.1 one-tailed). In Eastern Europe, antireform governments were statistically indistinguishable from their more reformist counterparts, whereas Stone's (2002) ideology scale in Model 2 was borderline significant (.05 one-tailed) but based on a smaller sample. However, the role of partisan politics and the cross-regional differences in the political responses to economic crises are much more pronounced once we take a closer look at the implications of the interaction terms presented in Tables 2a and 2b. Because interaction terms are often difficult to interpret by simply looking at regression coefficients (Brambor, Clark, & Golder, 2006), I present several of these results in graph form, using predicted probabilities based on the actual regression results.

In both regions, the effect of higher inflation differed as a function of government orientation, but the nature of the interaction revealed very different political dynamics. In Eastern Europe, at low inflation, excommunist governments conformed to their antireform reputation in that they were less than half as likely as other governments to initiate IMF programs (marginally significant at .1 one-tailed). However, these nominally antireform governments responded much more decisively to inflationary crises than their reformist counterparts did.²⁰ The implications of this interaction, illustrated in Figure 1b, are that at high inflation (around 140%), governments of different ideological persuasions were equally likely to initiate IMF-style reforms, and in hyperinflationary situations, excommunists actually surpassed the reformers in their reformist zeal (though the effect fell short of statistical significance). Model 5 confirms that this interaction effect also holds when using the 21-point ideology score proposed by Stone (2002).

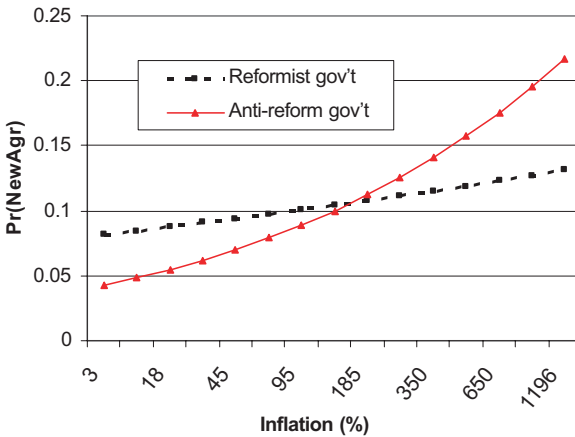
By contrast, judging by Model 4 in Table 2a, in Latin America, higher inflation greatly increased the odds of program initiation for Right governments (significant at .01), but the effect disappeared for centrist governments and turned negative (but not significant) for Left governments. As Figure 1a illustrates, what seems to set leftist and rightist governments apart is not their baseline attitude toward the IMF at low levels of inflation (at which the effect of government orientation is negligible) but their different

Figure 1a
Inflation, Ideology, and Program Initiation in Latin American Countries



Note: Statistical significance for predictor variable: continuous line ($p < .05$), dotted line ($p > .05$).

Figure 1b
Inflation, Ideology, and Program Initiation in Eastern Europe



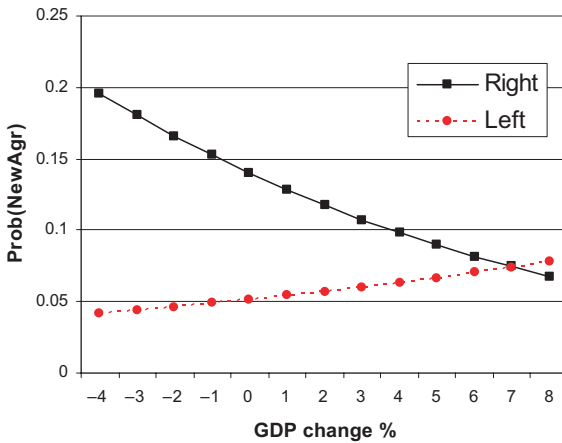
Note: Statistical significance for predictor variable: continuous line ($p < .05$), dotted line ($p > .05$).

reactions to high inflation, which prompted the Right to initiate IMF-style reforms, whereas the Left tried to avoid the high social costs of anti-inflationary measures.²¹ Model 5 reports a very similar interaction effect using partisan ties, in the sense that labor-based parties had a much weaker reaction to rising inflation levels. Thus, it appears that leftist parties had different reactions to inflationary crises both for ideological reasons and because their institutional ties to organized labor made them more susceptible to heterodox alternatives to the Fund's proposed austerity measures.

A similar contrast between crisis divergence in Latin America and crisis convergence in Eastern Europe emerges with respect to recessionary crises: According to Model 6 in Table 2a, weak growth made right-wing governments more likely to resort to IMF support (marginally significant at .1 one-tailed), whereas for the Left, it was associated with an (albeit statistically insignificant) reduction in program participation (see Figure 2a). As a result, in countries experiencing moderate to serious recessions, ideology had a statistically significant effect (.05 one-tailed), as rightist governments were more inclined to accept the Fund's crisis diagnosis and solutions than their leftist counterparts. Meanwhile, in Eastern Europe, governments of all ideological stripes were more likely to enter IMF programs when facing serious recessions (significant at .05 or better), but the effect was substantively and statistically stronger for antireform governments, thereby once again leading to crisis-driven policy convergence (see Figure 2b).

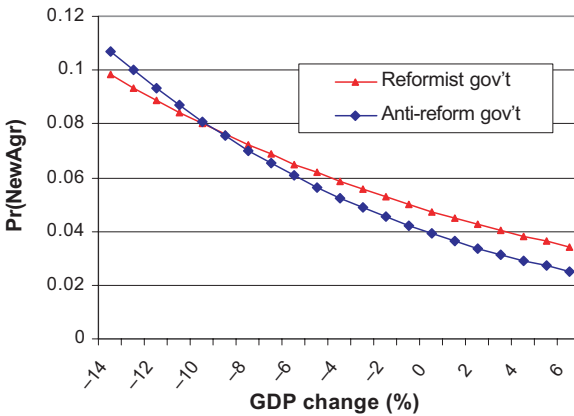
Given the acrimonious debates about the roots and solutions of the debt crisis, one would expect higher foreign debt burdens to trigger divergent policy responses along ideological lines. Indeed, Figure 3a (based on Model 7 of Table 2a) indicates that larger interest payments had a powerful catalytic effect on rightist governments (significant at .01) and to a lesser extent on centrist governments, whereas for leftist governments, the effect was actually in the opposite direction (albeit insignificantly so). Moreover, Figure 3a shows that ideology was a significant predictor of program initiation only in countries burdened by high interest payments (over 5.7% of GDP). By contrast, the positive interaction effect in Model 8 suggests that labor-based parties had a similar (and even slightly stronger) response to debt servicing crises as their non-labor-based party counterparts. The different signs of the interaction effects in Models 7 and 8 suggest that the crisis-driven policy divergence in Latin America was rooted in ideological disagreements rather than concerns about the fate of organized labor allies. These findings contrast earlier domestic crisis results in which ideological orientation and labor ties produced very similar partisan responses.

Figure 2a
Recession, Ideology, and Program Initiation in Latin America



Note: Statistical significance for predictor variable: continuous line ($p < .1$), dotted line ($p > .1$).

Figure 2b
Recession, Ideology, and Program Initiation in Eastern Europe



Note: Statistical significance for predictor variable: continuous line ($p < .05$), dotted line ($p > .05$).

It is somewhat surprising that Figure 3b (based on Model 7 of Table 2b) suggests that even in the transition countries, higher interest payments had a greater catalytic effect for proreform governments than for their excommunist and nationalist counterparts. However, in line with the lower salience of foreign debt in the post-communist transition, the effects in Models 7 and 8 were relatively modest in both substantive and statistical terms even for reformist governments. Moreover, ideological differences were not significant for any debt service burdens.

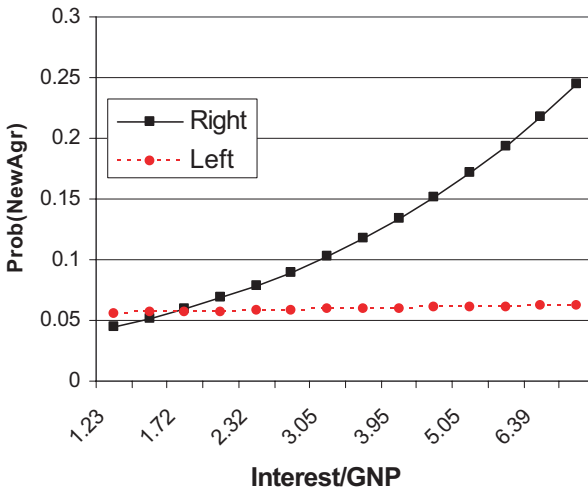
Not all aspects of economic crisis, however, triggered ideologically charged policy reactions during the Latin American debt crisis. Thus, Figure 4a (based on Model 9 of Table 2a) suggests that in response to foreign reserve shortages, which had been the traditional justification for IMF programs prior to the debt crisis, Latin American governments of different ideological orientations converged in their propensity to initiate IMF agreements. Whereas in countries with comfortable reserve positions, right-leaning governments were significantly more likely to initiate an IMF program, leftist governments were more responsive to low reserve levels.²² As a result, ideology ceased to affect the politics of IMF program initiation at very low reserve levels.

In Eastern Europe, the modest interaction effect between reserves and government orientation in Model 9 of Table 2b suggests that the most significant aspect of post-communist external economic crisis—low hard currency reserves—had a similar effect on governments of different ideological stripes. As illustrated in Figure 4b, both excommunists and their opponents tended to avoid IMF conditionality when backed by comfortable reserve positions but resorted to IMF support in crisis situations. The uniformity of this effect underlines the by-and-large technocratic, un-ideological nature of post-communist responses to liquidity crises.

Alternative Program Drivers

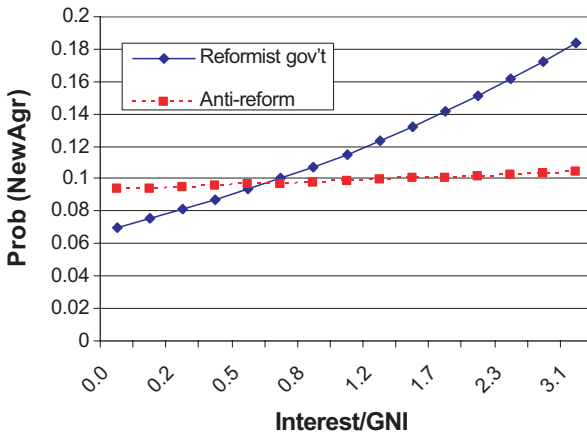
Policy responses to post-communist economic crises were significantly shaped by the ability of governments to respond to crises in a coherent fashion. The large and statistically significant positive effect of the quality of governance indicator in Table 2b suggests that policy responses of post-communist governments crucially depended on their often limited capacity to get things done, undoubtedly a legacy of the expertise deficit inherited by many transition countries. In Latin America, bureaucratic quality also had a positive impact on initiation, but the effects fell short of achieving statistical significance, thereby confirming the greater salience of the institutional deficit of transition countries.

Figure 3a
Interest Burden, Ideology, and Program Initiation in Latin America



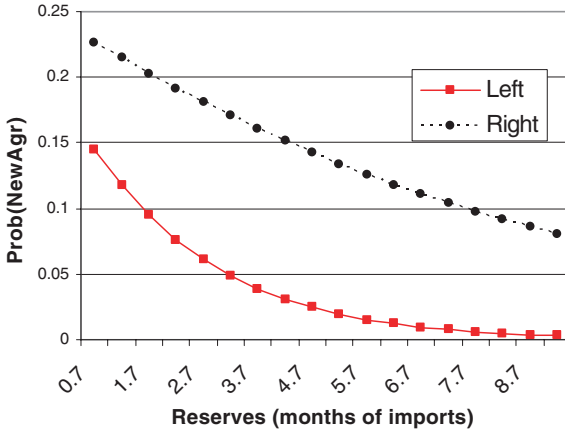
Note: Statistical significance for predictor variable: continuous line ($p < .05$), dotted line ($p > .05$).

Figure 3b
Interest Burden, Ideology, and Program Initiation in Eastern Europe



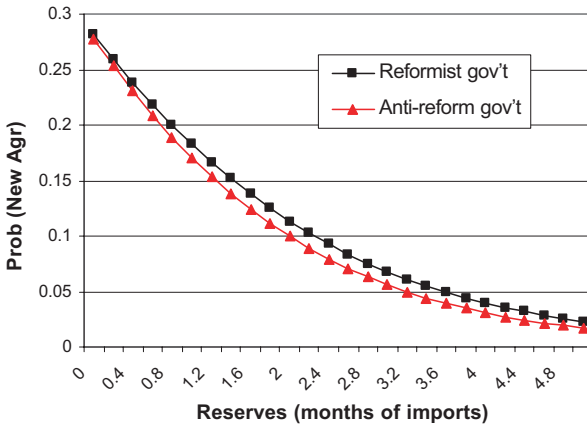
Note: Statistical significance for predictor variable: continuous line ($p < .1$), dotted line ($p > .1$).

Figure 4a
Reserves, Ideology, and Program Initiation in Latin America



Note: Statistical significance for predictor variable: continuous line ($p < .05$), dotted line ($p > .05$).

Figure 4b
Reserves, Ideology, and Program Initiation in Eastern Europe



Note: Statistical significance for predictor variable: continuous line ($p < .05$), dotted line ($p > .05$).

Among the indicators of domestic political institutional configuration, neither regime type nor veto points (Model 10) had a significant impact on program initiation in the two regions. However, the results in Model 10 confirm Weyland's (1998) argument that economic crises are best tackled by new governments, which are less tied to the status quo: Thus, in both regions, the effects of inflation were large and statistically significant (at .05 or better) for new governments, whereas for incumbents, the effects were still positive but only marginally significant (.1 one-tailed) in Eastern Europe and not significant in Latin America. Similar results were also obtained using recession as a crisis indicator, but for reserves and interest payments, the interaction effects were negligible or pointed in the wrong direction (results omitted), which suggests that Weyland's argument does not hold for countries facing external crises.

The statistical results for both regions confirm the importance of recidivism in IMF programs, given that the effect of prior program participation was statistically significant and substantively large across all regressions in Tables 2a and 2b. Among the other variables testing for alternative explanations of program initiation, the only one that was consistently significant was that transition countries, whose UN voting record moved closer towards the United States, were more likely to initiate IMF programs in the following year. This result confirms Thacker's (1999) finding that U.S. allies may receive preferential treatment in their dealings with the IMF. On the other hand, the UN voting effects were statistically insignificant (though in the expected direction) in Latin America, possibly reflecting the primacy of debt repayment over other types of considerations.

Discussion and Conclusion

This comparative analysis of IMF program initiation in Latin America and the former Soviet bloc has a number of important implications for our understanding of economic crisis as a driver of IMF programs and IMF-style reforms more broadly. Although the analysis confirms the importance of both domestic and external economic crises as reform catalysts, it also illustrates quite clearly that economic crises are at least to some extent in the eye of the beholder. Economic crises are defined not only with reference to more or less objective economic indicators but are significantly shaped by the way key political actors interpret and react to these economic challenges. As a consequence, economic crises did not have a uniform effect on the decision to initiate IMF programs but were filtered through the international context and the ideological preferences of the governments in the countries of the two regions.

The empirical findings of this article suggest that in political environments in which key actors disagree about the proper interpretation of the roots of the economic crisis—as happened most clearly with respect to inflation and interest payments during the Latin American debt crisis—economic crises trigger policy divergence for governments of different ideological orientations. The evidence suggests that left and right parties in Latin America had similar policy inclinations in noncrisis environments but experienced policy divergence in reaction to inflationary, recessionary, and debt servicing crises, which made right-leaning governments more likely to initiate reforms but had no impact on the Left. This divergence is illustrated by the dramatic reversals of policy reactions to economic crises in Bolivia and Peru as a result of changes in the ideological orientations of governing parties. Institutional ties to organized labor produced similar crisis-divergence patterns for domestic crisis indicators but not for debt service, which suggests that organized labor focused its efforts primarily on domestic distributive issues while ideology had a more comprehensive policy impact.

The partisan effects on economic crisis responses revealed a very different pattern in Eastern Europe: Although governments of different ideological stripes pursued noticeably different policies in the absence of domestic economic crises, recessions and inflationary crises triggered very similar reactions as governments resorted to IMF programs irrespective of their ideological orientations. The resulting crisis-driven policy convergence suggests that ideological convictions among the erstwhile ideological challengers of Western liberalism were much more malleable during the 1990s than those of their Latin American counterparts during the debt crisis of the 1980s.

These findings emphasize the importance of analyzing the different ideological responses to economic crises in the broader context of a changing international economic and political environment. Thus, the contrast between the Fund's role as a debt collector during the Latin American debt crisis and its much less controversial advisory role to post-communist governments during the international financial boom of the 1990s helps explain the much more acrimonious and divisive politics of IMF programs in Latin America compared to Eastern Europe. Combined with the replacement of Cold War ideological bipolarity by the neoliberal hegemony of the 1990s, these differences in the nature of IMF interventions triggered different crisis reactions from governments of the two regions: In Latin America, economic crises tended to accentuate ideological differences between political parties, whereas their ideologically and socially less grounded post-communist counterparts were more likely to converge in policy terms during crisis situations.

The political dynamics of liquidity crises suggest that crisis politics are not only dependent on the broader regional and international context but also on the specific nature of the crisis aspect. Thus, low international reserves triggered technocratically uniform policies not only in post-communist Eastern Europe but also even led to policy convergence in the much more ideologically charged context of the Latin American debt crisis. This suggests that certain types of crises lend themselves more easily to divergent interpretations than others: Whereas a government facing high inflation could choose to fight it by either orthodox fiscal austerity measures or by heterodox price and wage controls, governments running out of hard currency reserves usually have few alternatives than to adopt the policies required by the international lender of last resort, the IMF.

In addition, this article has made three theoretical contributions to the literature on the political economy of IMF programs and neoliberal reforms. First, it highlights the important interaction between objective economic crisis indicators and government orientation as drivers of economic reforms. By taking seriously the notion that economic crisis is at least to some extent in the eye of the beholder, the article can help explain the uneven and inconsistent crisis–reform link in many developing countries. Second, the article illustrates the importance of taking seriously the cross-regional and cross-temporal causal heterogeneity in the connection between economic crisis and policy reforms and proposes structured cross-regional comparisons as a methodological solution for tackling such heterogeneity. Finally, the article reiterates the importance of analyzing the politics of domestic economic reforms in the broader context of a changing international arena, which provides many of the incentives and constraints shaping national political economy trajectories.

Notes

1. Counterexamples include Mexico and Chile in the mid 1980s, Slovakia in 1994, and Moldova in 1993–1994.

2. For a partial exception, see Weyland's (1998) discussion of prospect theory and reform initiation.

3. This is true not only for a single country or a single region but also for broader cross-regional studies.

4. For a thorough theoretical discussion of the trade-offs of East–South comparisons, see Bunce (1998).

5. Factors included the global recession after 1979, the rise of interest rates, the lower lending willingness of commercial banks, and deteriorating terms of trade (Eichengreen & Fishlow, 1998, p. 22).

6. Obviously, program implementation is also important in both theoretical and practical terms (Ivanova, Mayer, Mourmouras, & Anayiotos, 2006), but this line of inquiry cannot be pursued here due to space considerations.

7. Although some countries may benefit from politically motivated favoritism, such bias should be correctable by including appropriate controls in the models specifications.

8. Unlike the well-documented political bias in favor of large countries and U.S. allies, there is limited evidence of a systematic International Monetary Fund (IMF) bias against leftist governments in the two regions (Pop-Eleches, 2007). Although Stone (2002) found that politically vulnerable right governments received more lenient program enforcement from the IMF, partisanship did not affect the length of punishment intervals (which comes closer to the program initiation dynamics discussed here).

9. Bosnia-Herzegovina and Yugoslavia were excluded because little reliable data were available.

10. Even Vreeland (2003), who argues that some governments seek IMF conditions to pursue domestic objectives, found that countries confronting external crisis were more likely to enter IMF programs.

11. Some governments use quasifiscal deficits to achieve better official budget statistics, and unemployment statistics are notoriously unreliable.

12. Several studies (e.g., Knight & Santaella, 1997; Thacker, 1999; Vreeland, 2003) have found external debt service and/or interest payments to be significant drivers of IMF program initiation.

13. I coded the parties in countries missing from Coppedge (2001) using secondary sources and calculated the ideological position of multiparty coalitions as the average orientation scores of the individual parties weighted by their relative seat share.

14. Thus, none of the more prominent analyses of IMF programs (e.g., Bird, 1995; Knight & Santaella, 1997; Stone, 2002; Vreeland, 2003) analyzes the implications of bureaucratic capacity.

15. Because no scores were available for 1990 through 1992, I have coded these years by adjusting the scores for 1993 for the changes discussed in the 1995 edition of *Nations in Transit*. (Karatnycky, 1995).

16. These measures are lagged to reduce concerns of post hoc coding due to IMF program participation.

17. Because veto players and regime are highly correlated, they were not included in the same model.

18. Alternative measures such as total imports and total debt produced similar results.

19. There are, however, a few exceptions (e.g., Stone, 2002, uses monthly data).

20. According to Model 4, inflation had a strong initiation impact on excommunists (significant at .01), whereas for reformist governments, the effect was positive but statistically insignificant.

21. As a consequence, at high inflation levels, Right governments had a much higher likelihood of initiation than their leftist counterparts (significant at .05).

22. The effect was large and statistically significant (.01) for centrist and leftist governments but was much weaker and statistically insignificant for right-wing governments.

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