

**Public Goods or Political Pandering:
Evidence from IMF Programs in Latin America and Eastern Europe**

Grigore Pop-Eleches
Princeton University
gpop@princeton.edu

Abstract:

This article uses empirical evidence from Latin American and East European IMF programs from 1982-2001 to analyze the nature and the extent of preferential lending practices by the International Monetary Fund. Unlike prior work, which focused on narrow political interference from large IMF member states, the present analysis differentiates between such narrow interests and the Fund's international systemic responsibilities, which may justify the preferential treatment of systemically important countries to prevent broader regional or global crises. The empirical results suggest that systemically based deviations from technocratic impartiality predominate in situations – such as the Latin American debt crisis – where international financial stability is under serious threat. Under such circumstances, economically important countries do receive preferential IMF treatment but only when experiencing severe crises, while narrow “private goods” considerations are largely sidelined. When systemic threats are less immediate – such as in Latin America and Eastern Europe in the 1990s – IMF favoritism reflects a more volatile and region-specific mix of private and public considerations in line with the changing interests of powerful Western nations in the developing world.

Acknowledgements: The author would like to thank Beth Simmons, Ruth Collier, Jim Robinson, Sebastian Etchemendy, Jonas Pontusson, Deborah Yashar, Helen Milner, Joshua Tucker, Peter Rosendorff, David Stasavage, Carmela Lutmar and Jim Vreeland for comments on earlier versions of this article. All the remaining errors are obviously mine.

To what extent do the lending practices of international organizations such as the International Monetary Fund (IMF) deviate from the principle of technocratic impartiality? This question has received an increasing amount of scholarly attention in recent years and for good reason. From a theoretical standpoint, the answers to this question address the long-standing debate between realists and institutionalists about the logic of international organization (IO) involvement in international politics and economic relations. From a realist perspective, international organizations simply reflect the interests of powerful nation-states (Krasner 1985; Mearsheimer 1994; Strange 1997) and IMF lending should be shaped by the power differential inherent in the Fund's governance structure, which assigns vote shares in rough proportion to the size of financial contributions, and is therefore heavily skewed in favor of advanced industrial nations. However, the realist approach had been critiqued from an institutionalist perspective (Baldwin 1993; Keohane and Martin 1995), which points out that large powers may be willing to forfeit part of their narrow self-interest in order to allow international organizations to provide global public goods (such as international financial stability in the case of the IMF).

Politically motivated deviations from technocratic impartiality are also important from a policy standpoint. First, preferential treatment of certain countries undermines the utility of one of the public goods for which the Fund is responsible: the provision of unbiased assessments of country policies. As a corollary, this loss of signaling credibility weakens the multiplier effect of IMF lending and undermines the effectiveness of IMF programs. Second, easier lending to big countries exacerbates the moral hazard problem inherent in IMF lending (Stone 2002) and contributes to international financial instability as economically important countries postpone the necessary adjustment. Finally, the use of scarce Fund resources for preferential lending diverts funds from more appropriate instances of genuine crises.

The official IMF conditionality stance centers on the principle of "political neutrality," (Guitian 1981; Polak 1991) which is based on the *Articles of Agreement* mandate to seek an acceptable balance between protecting the interests of individual members and those of the membership as a whole. From this perspective, the IMF is expected to use uniform and impartial standards in determining the availability and generosity of lending, as well as the stringency of program conditions and compliance enforcement. In practice, however, conditionality has reflected the significant power differential between the Fund's main shareholders (primarily advanced industrial democracies)¹ and developing countries, which have accounted for most IMF programs since the 1970s. Even leaving aside radical critiques of IMF conditionality,² this power differential has drawn increasing scrutiny from scholars concerned with deviations from technocratic standards due to geopolitically or economically motivated interventions by large IMF shareholders. (Thacker 1999; Bird and Rowlands 2001; Stone 2002, 2004; Barro and Lee 2002; Oatley and Yackee 2004; Dreher and Jensen 2006; Dreher et al 2006).

The existing literature has identified various political drivers of preferential treatment: several studies have found that countries, whose UN voting reflect a close geopolitical alignment with the US or other Western nations, had more frequent access to IMF lending (Thacker 1999), received more generous loans (Barro and Lee 2002, Oatley and Yackee 2004), were subjected to fewer program conditions (Dreher and Jensen 2006) and were punished less severely for non-compliance (Stone 2004). Stone (2002, 2004) found that recipients of generous US foreign aid in both Eastern Europe and Africa suffered shorter punishment intervals for deviating from IMF policy prescriptions. Barro and Lee (2002) found that countries with large IMF quotas received larger overall loans but Stone (2002, 2004) found no evidence that quota size affected other aspects of IMF conditionality, such as punishment frequency and duration.³

While these studies have made a significant contribution to the debate about the politics of IMF lending, their focus on the narrowly political motivations for IMF deviations from technocratic impartiality have largely led them to ignore another crucial driver of preferential treatment during IMF program negotiations: the Fund's concern with international financial stability arising from its role as an international lender of last resort. Thus, a certain degree of exceptionalism may be inherent in the Fund's systemic responsibilities because international trade and financial stability may require deviations from technocratic impartiality for countries whose share in world trade and debt is sufficiently large to trigger broader regional or global crises in the event of a complete financial meltdown. While this aspect of IMF lending has been discussed in the context of the politics of IMF programs in individual countries (e.g. Haggard and Kaufman 1995), it has received less attention in the cross-national statistical literature on the drivers of IMF lending. There are two partial exceptions to this trend: Thacker (1999) includes overall debt size in his statistical models on the basis that "the Fund is hypothesized to give greater supply consideration to the larger debtors" but finds no effects on program initiation and does not develop the theoretical implications of systemically based preferential treatment. Vreeland (2003) finds that the absolute size of a country's balance of payments deficit predicts program initiation and continuation, and he interprets this finding as being in line with the Fund's mission to address large payment imbalances. However, he does not discuss the findings at length and does not interpret them as evidence of preferential treatment.

A second limitation of the existing literature is its failure to consider the interaction effects between economic/political importance and crisis intensity. The omission of interaction effects amounts to an implicit assumption that politically motivated deviations from technocratic impartiality are independent of the type and intensity of the crises experienced by developing

countries. In part, this omission reflects these studies' focus on geopolitical interests rather than systemic priorities, given that the latter are more likely to vary as a function of crisis severity.

A final shortcoming of this literature is that it ignores the importance of the regional and temporal context of IMF programs. Temporal heterogeneity should matter for at least two reasons: first, Western interests in the developing world have changed substantially in response to the geopolitical realignment associated with the end of the Cold War. Second, the rapid evolution of international financial markets has affected both Western economic interests in the developing world, and the Fund's role in the West's pursuit of these interests. Moreover, both Western geopolitical priorities and the role of IMF interventions vary significantly across regions even within a given time period, which suggests that we should expect to see different regional patterns of preferential treatment. Nonetheless, with the notable exception of Stone's regionally focused analyses of Eastern Europe (Stone 2002) and Africa (Stone 2004), the studies discussed above include observations spanning multiple decades and/or regions without fully addressing the issue of causal homogeneity.⁴

This article contributes to the international political economy literature in several ways: first, it goes beyond the traditional dichotomy of technocratic vs. politically-based lending, and develops a conceptual framework that differentiates between preferential treatment for systemic "public good" reasons and narrower "private goods" favoritism driven by the geo-political and economic interests of the Fund's largest members. Second, the analysis focuses on the important and previously ignored interaction between crisis intensity and political/economic importance, and shows that preferential treatment during IMF programs is not uniform but generally manifests itself more clearly in extreme crisis situations. Third, the article shows that the patterns of politically driven preferential treatment varied across regions and time periods, and therefore

underlines the importance of systematic cross-temporal and cross-regional comparisons for understanding the politics of IMF lending. Fourth, the article illustrates the effects of preferential treatment across a broader range of IMF conditionality aspects than previous studies, in that it analyzes the drivers of program initiation, implementation, loan size and condition waivers and finds evidence of deviations from technocratic impartiality across all these dimensions.

More specifically, the article uses empirical evidence from Latin American and East European IMF programs from 1982-2001 to show that the relative mix of systemic vs. narrow interest-based deviations from technocratic impartiality largely depends on the nature of the broader international context. During the debt crisis, which posed a significant threat to international financial stability due to the extremely high exposure of the largest Western commercial banks to Latin American debt,⁵ preferential treatment occurred primarily along systemic lines: thus, economically important countries received preferential IMF treatment almost exclusively when experiencing severe crises, which could threaten systemic stability. When threats to international financial stability were less immediate – such as Latin America and Eastern Europe during much of the 1990s, when the much lower exposure of Western lenders reduced the likely fallout from a potential debt default by emerging market debtors⁶ – preferential treatment reflected a more volatile mix of motives. Thus, some aspects of IMF lending in these two episodes mirrored the systemic logic of crisis-driven preferential treatment while others conformed more closely to the traditional account of political deviations from technocratic standards, in that they reflected the narrower, situation-specific economic and geopolitical interests of influential IMF member states.

II. Theoretical Framework

To judge the sources of preferential treatment in IMF lending, one has to establish first what constitutes a deviation from the technocratic impartiality. The Articles of Agreement commit the IMF “to making the general resources of the Fund temporarily available to [members] under adequate safeguards” in order to allow countries to enact adjustment policies “without resorting to measures destructive of national or international prosperity.” This vaguely worded mission provided little guidance about the specific content of “adequate safeguards,” or about how to balance the potentially conflicting goals of national and international prosperity. The resulting ambiguity created ample room for discretion in Fund policies and led to conflicting interpretations about how IMF conditionality should be applied in practice.

Of course even the nature of IMF technocratic prescriptions has changed significantly in recent decades in response to earlier criticisms (Pastor 1987), especially by placing much greater emphasis on structural reforms starting in the late 1980s particularly in the transition countries. (Stallings 1992; IMF 2001) While this evolution arguably affected the domestic economic and political dynamics of IMF programs – and thereby further reinforces the case for a separate analysis of different regions and time periods – the current analysis is less concerned with the specific nature of IMF orthodoxy than with the question whether conditionality is applied impartially to different member countries. More specifically, the question is whether at a given point in time the Fund applies the same standards in deciding when countries can access IMF resources, how much financial support they get, and how strictly conditionality is enforced. Impartiality does not preclude variations in program details to address specific country circumstances but it does require that IMF lending flexibility should not be systematically biased in favor of certain countries on the basis of their economic and political ties to large IMF shareholders. However, preferential treatment of certain countries does not necessarily imply that

IMF staff is biased in favor of Western allies or systemically important countries but it reflects the greater bargaining power of certain program countries, whose leaders use their geopolitical ties or economic importance to extract more favorable program terms, often following the direct US government interventions.⁷

Policy analysts agree that politically motivated preferential treatment of certain countries undermines the credibility and effectiveness of the Fund.⁸ The essence of this argument is neatly laid out by Stone (2004) as a strategic game with commitment problems, in which the Fund's main principals cannot credibly commit not to use IMF lending as a political tool, and thereby undermine the effectiveness of IMF conditionality. Unlike the "realist" national interest-based interference of Western donors discussed above, the systemic drivers of preferential treatment are more difficult to classify as either political or technocratic. Since in the Articles of Agreement, the IMF is charged with promoting international monetary cooperation and facilitating the balanced growth of international trade, the Fund's systemic mandate may require special treatment of economically important countries confronted with extreme economic crises. This means that preferential treatment does not simply reflect narrow political interests trumping technocratic rationality but rather is the result of a tradeoff between two legitimate but potentially conflicting IMF mandates: as an unbiased dispenser of conditional lending and policy signals (Masson and Mussa 1997) and as an overseer of international economic stability.

Nonetheless, politics is not (and cannot be) entirely absent from this picture. Thus, the process of deciding what amounts to a systemic threat is at least partially driven by politics: for example, the Fund's sweeping interventions during the debt crisis of the 1980s were justified by concerns about the international fallout of a default by Latin American debtors but critics have charged that international financial stability was erroneously equated with the prosperity of a few

large Western commercial banks (Jorge 1985). Along similar lines Gould (2003) has shown that the Fund's policy priorities are often excessively influenced by the interests of private international creditors. Even to the extent that one could objectively assess the systemic threats posed by a given country's default, balancing these costs against the moral hazard risks posed by soft lending practices is ultimately a political question, whose resolution depends on the relative political influence of competing economic interests in the Fund's large shareholder countries.

In situations where such systemic exceptionalism occurs, we should expect to see very similar commitment and implementation problems as those experienced in the countries affected by geopolitical favoritism. Nonetheless, the nature and the implications of these two types of deviations differ in a number of ways: first, since serious threats to international financial stability are much more infrequent than the quasi-permanent temptation to use IMF programs for geo-political purposes, systemic exceptionalism should affect a smaller number of countries and for shorter time periods. While the strain of large bailouts on IMF resources (such as during the 1995 Mexican crisis) is significant, the Fund's legitimacy and effectiveness would suffer less if preferential treatment was limited to crisis situations, where it can be credibly interpreted as providing a global public good. Second, by restricting preferential treatment to systemic crises, the IMF could improve its leverage even vis-à-vis economically important developing countries, given that softer conditionality would only be applied in extreme crisis situations. Under such circumstances the Fund's commitment problems would be partially offset by the high costs of program breakdown for the program country, which reduces the government's temptation to test the Fund's willingness to bend the rules for systemic reasons.

III. Hypotheses and empirical setup

This theoretical framework has a number of empirical implications, which will be tested in this article. I start by laying out the main empirical predictions of the three different ideal types of IMF lending, and then discuss the choice of statistical indicators, as well as other methodological concerns, including the choice of statistical estimation methods and case selection.

To the extent that IMF lending is driven by an impartial technocratic logic, we should expect program initiation and implementation to be driven uniformly by financial need, such as low reserves and high debt service. In this respect, economic crises should provide greater incentives for both governments and the IMF, as both are trying to limit the repercussions of financial instability. Moreover, technocratic impartiality requires that none of the statistical indicators of economic and political importance should systematically affect the timing and nature of IMF programs.

To assess the importance of systemically motivated preferential treatment, we need to focus on indicators of global economic importance, such as a country's overall debt and trade levels. However, the defining feature of systemic deviations from technocratic impartiality lies in the hypothesized interaction between economic importance and crisis intensity: since under this scenario preferential treatment is only justified in extreme crisis situations, economically important countries should receive easier and more generous access to IMF funding only when confronting extreme external crises such as low reserves or high debt service burdens. In other words, during normal times all countries should be treated uniformly but the Fund should react more strongly to economic crises in large countries by offering prompter and more generous assistance under such circumstances. The strength of this interaction between economic importance and crisis intensity should play a greater during time periods (such as the 1980s debt

crisis), when there are widespread fears that the economic collapse of one of the larger countries could pose a significant threat to overall global economic stability.

Finally, if IMF lending is driven by the narrow economic or geopolitical concerns of its largest shareholders, we should expect to find that countries with close economic and political ties to advanced industrial countries should be more likely to get “breaks” in their IMF interactions.

Dependent variables: IMF lending indicators

Since preferential treatment may affect different aspects of IMF conditionality, I analyze four relevant IMF program dimensions: program initiation, loan size, program waivers, and program compliance evaluation. The first dimension is *program initiation*: the dependent variable is a simple dichotomous measure that indicates whether the IMF has entered an agreement with given country at a given point in time. From 1982-89 the IMF signed 43 high-conditionality programs with the 21 Latin American and Caribbean countries in my sample,⁹ which was higher than the program frequency in the region after 1990 (44 programs from 1990-2001) but slightly lower than in Eastern Europe (where 26 countries¹⁰ amassed 74 programs from 1990-2001). The second dimension is the Fund’s *evaluation of program compliance*: the measure, which indicates whether a program was active in a given time period, captures whether the IMF considered the overall policies to have been sufficiently compliant to warrant the stamp of IMF approval.¹¹ The two intense regional crisis episodes had broadly comparable track records in terms of the Fund’s compliance evaluation (roughly two-thirds of the time), whereas the more infrequent Latin American IMF programs of the 1990s were judged on track almost three-quarters of the time. While both program initiation and compliance have been widely used

in previous work, the results need to be interpreted with some caution, since both program initiation and completion are driven by the joint actions of the IMF and the program country government. Since the measures do not allow us to distinguish the relative weight of the Fund's intransigence/flexibility from the government's willingness and/or ability to fulfill IMF conditionality,¹² the ability of these tests to identify politically based deviations from technocratic impartiality hinges on the extent to which the statistical models manage to control for the key economic and domestic political drivers of program initiation and implementation.¹³

The other two indicators of IMF lending analyzed in this article – the amount of funding and the incidence of program vouchers – focus on aspects of program design that are more clearly at the discretion of the Fund, and therefore offer a more direct approach for identifying preferential treatment. Since the amount of IMF funding available to a given program is based on the country's IMF quota,¹⁴ the most straightforward indicator of the Fund's financial largesse towards a country is the annualized share of the quota committed in support of an SBA or EFF program. The final conditionality aspect is the number of program waivers approved by the Fund within a given program. While such waivers are important for program flexibility in situations where circumstances beyond the government's control make it difficult to fulfill the original program targets, they are also potential mechanisms for political interference, since they allow unpunished deviations from IMF conditionality. Unfortunately, the data for this indicator, based on Ivanova et al (2003), was only available for post-communist programs from 1993-98, and therefore does not allow for cross-temporal and cross-regional comparisons. *[Table 1 here]*

Main explanatory variables: economic/political importance and crisis intensity

The key independent variables capture indicators of economic and/or political factors, which may trigger preferential treatment by the IMF. In line with the theoretical discussion, I differentiate between indicators of systemic importance, which may trigger justifiable preferential treatment during extreme crises, and narrower economic or geopolitical factors, which induce large shareholders to lobby the Fund for preferential treatment for their protégés.

Earlier studies have used a variety of indicators (including GDP and IMF quota) to capture the size and thus the systemic importance of a country. For the present analysis the most appropriate aspects of country size are those with a direct bearing on the Fund's systemic responsibilities. Therefore, the statistical tests use logged indicators of total external debt and total imports,¹⁵ which reflect a country's importance in international financial markets and trade.¹⁶

Among the indicators of narrow "realist" deviations from technocratic impartiality, I distinguish three subtypes. The first type captures the geopolitical proximity of program countries to the main Fund shareholders, and has generally been measured as the similarity in UN General Assembly voting records between a given country and a relevant major power (usually the US).¹⁷ This analysis uses the degree of agreement between a program country and the United States across all votes in the preceding UNGA voting session.¹⁸ To test Thacker's (1999) hypothesis about the importance of relative movements towards the US position several models also include the change in voting record agreement compared to the preceding year. The effects of geopolitical orientation should be stronger in environments where such issues have high political salience, such as during the Cold War and the post-communist transition.

The second type of indicator taps into economic factors, which may motivate large member states to pressure IMF staff for preferential treatment of certain developing countries in order to

further the economic interests of private actors in their own countries. Unlike the systemic measures, which capture overall international economic importance, these indicators reflect the intensity of bilateral economic ties, particularly a country's imports from the US or other Western industrial countries (Bird and Rowlands 2001; Barro and Lee 2002; Stone 2004).¹⁹ Given the importance of regional hegemons, I focus on US imports for Latin America and EU imports for Eastern Europe.

Finally, following Stone (2002, 2004) I also included bilateral foreign aid as a proxy of political importance, since aid captures the directly expressed political preferences of Western donors. On the other hand aid does not tell us about the sources of such preferences, and the link between aid and IMF lending is complicated by two factors: first, Western lenders may choose to reward some allies via direct aid and others via favorable IMF lending conditions, in which case bilateral aid may no longer be an accurate gauge of political favoritism. Second, since at least some foreign aid is conditional on economic policies, the correlation between aid and IMF lending may be spurious since both could be driven by pro-market economic policies. Therefore, the effects of foreign aid on IMF conditionality should be interpreted with some caution.

The second category of explanatory variables consists of indicators of financial need and external economic crises, which are among the most prominent academic explanations of the drivers of IMF programs. Such crises are an integral part of the Fund's official mission to help countries address temporary balance-of-payments difficulties. These tests use two different external crisis indicators, which have been frequently employed in the IMF literature: interest payments as a share of GDP and foreign reserves in months of imports.²⁰ The first indicator captures the financial burden of foreign debt payments, which were crucial during the Latin

American debt crisis, whereas reserves capture the liquidity concerns, which were especially salient in the cash-strapped transition economies.

The hypothesized effects of economic crises on IMF lending depend on the theoretical assumptions about the Fund's primary motivations. Technocratic impartiality would require the Fund's response to economic crises to depend only on crisis intensity and government policies but not on considerations about a country's size or political ties. The systemic exceptionalism perspective predicts prompter IMF reactions to financial crises in large debtor countries and large markets, to prevent broader crisis contagion. From a political pandering perspective, economic crises should matter less than the geopolitical and economic interests of large shareholders.

Alternative drivers

To isolate the effects of geopolitical and systemic influences, we have to control for several crucial domestic political and institutional drivers of IMF programs. While governments often resort to IMF support to deal with external crises, domestic economic crisis may also provide a reform impetus for governments, and since such reforms usually benefit from IMF funding, signaling and policy advice, such crises should be associated with a higher likelihood of IMF program initiation and implementation. In line with much of the previous literature,²¹ I have used inflation as a domestic crisis indicator, given its great visibility and political salience.²²

Since the IMF is widely regarded as a key promoter of neoliberal economic policies, the partisan orientation of the government should affect the politics of IMF programs. Even though with a few exceptions (Bird and Rowlands 2001; Stone 2002, 2004) the existing literature on IMF conditionality has ignored ideological effects, we should expect leftist governments to be

less willing to initiate and implement IMF programs than their rightist counterparts, which may use IMF programs as a pretext for implementing market-based reform they would have preferred anyway.²³ However, due to the decline of ideological alternatives to neoliberalism in the 1990s, we should expect the effects of ideology to be stronger during the Latin American debt crisis than in the 1990s. To measure the government's ideological orientation, in Latin America I build on Coppedge's (1997) well-documented left-right classification scheme, which scores parties from 0 (Right) to 4 (Left).²⁴ Since the traditional left-right divide is less useful in the post-communist context (Tismaneanu 1996; Tucker 2006), I coded political parties in the region along the key fault line of post-communist politics - whether a party is a Communist successor party.

The role of regime type has figured prominently among the domestic political explanations of IMF program dynamics (Bird and Rowlands 2001; Stone 2004) and of economic reforms more broadly (Kaufman and Stallings 1989, Haggard and Webb 1994). However, the results should depend on the regional and temporal context, as IMF-style neoliberalism has been more compatible with democratic politics during the 1990s (especially among the transition countries) than during the debt crisis of the 1980s. In this analysis I use the *Polity regime score*, which captures the institutional dimension of political regimes.

Since IMF programs often face significant technical challenges, the tests also include measures of the effectiveness of bureaucratic institutions. Somewhat surprisingly, this important aspect of the reform process has been ignored almost completely by earlier statistical work on the subject. To measure this concept for the transition countries I use the *governance and public administration* scores from *Nations in Transit* from 1993 to 2001.²⁵ Since similar scores are not available for Latin America, I used annual *bureaucratic quality* scores from the *International Country Risk Guide (ICRG)*. Countries with weak bureaucracies should have a harder time

implementing IMF programs, which should translate into worse compliance evaluation records and more program waivers.

In line with several earlier studies (Conway 1994; Bird 1995; Bird et al 2004), which have emphasized the role of recidivism in IMF lending, the initiation-stage regressions in the three episodes include an *IMF program history* indicator, which reflects the frequency of a country's past IMF involvement. While the statistical models do not include country dummies (since many of the variables of interest vary primarily across rather than within countries) this program history indicator should reflect other medium-term unobservable drivers of IMF program initiation and implementation, and therefore reduce the potential omitted variable bias inherent in cross-national regressions. To control for possible economic or political shocks at the regional/international level, all the regressions include year dummies (not reported).

Methodological considerations

The statistical tests presented below use quarterly data instead of the yearly statistics employed by most large-N studies of IMF programs.²⁶ This approach facilitates a more fine-tuned understanding of the short-term dynamics of IMF programs, which usually last between 12 and 18 months and have quarterly disbursements. Since both economic and political conditions can vary substantially over the course of a year much of the crucial short-term variation is likely to be washed out in tests employing yearly data.

For the analyses of program initiation and compliance evaluation, which have dichotomous dependent variables, I used random effects time-series cross-sectional logit models.²⁷ To deal with temporal dependence, all the statistical models include a non-event duration measure and cubic time splines (see Beck et al 1998). To analyze loan size, which is continuous but left-

censored, I performed a box-cox transformation to ensure normality and then used time-series cross-sectional OLS regressions with panel-corrected standard errors, correcting for panel heteroskedasticity. Finally, for the number of waived program condition, which is a count variable with more than a third of zero-value observations, I used zero-inflated Poisson regressions clustered by country and with Huber/White robust standard errors.²⁸

The article relies heavily on interaction effects, which play an important role in testing the predictions of systemic importance. Since interaction effects are difficult to interpret by simply looking at regression coefficients (Brambor et al 2006), I report relevant substantive effects and significance levels (using conditional standard errors) for different values of the modifier variable. Moreover, for a few crucial interaction effects I present graphs plotting the predicted effects of different independent variables based on the results of the statistical models.²⁹ To illustrate the statistical effects of both crisis intensity and economic/political importance indicators, the graphs show predicted probabilities rather than marginal effects of individual variables. The value range for which these findings are statistically significant is indicated as a shaded area in the graphs and is also discussed in the text.

Unlike much of the existing literature, which uses data pooled across multiple regions and time periods, the data for this analysis is pooled within but not across the three clusters of cases: Latin America (1982-89), Latin America (1990-2001) and Eastern Europe/FSU (1990-2001). Given the regional and temporal variations in the geopolitical and systemic priorities of the Fund's major shareholders, this focus on temporally and geographically more restricted sets of cases facilitates causal homogeneity within clusters and structured comparisons across the clusters. After all, there are good reasons to expect that Western geopolitical interests in the developing world were affected by the end of the Cold War and that even during the 1990s

Western priorities in the former Soviet bloc differed from those in other developing countries. Similarly, the Fund's systemic role during the debt crisis of the 1980s arguably differed from its function during the financial boom of the 1990s, and the post-communist transition raised different economic challenges than the external crises of traditional IMF programs. This approach is in line with recent methodological discussions of the conceptual importance of regions in political science (Mainwaring and Perez-Linan 2007).

The choice of these particular episodes was driven by several considerations. Thus, two of the three episodes – Latin America during the debt crisis and Eastern Europe during the post-communist transition – represent the most prominent instances of sustained, large-scale IMF interventions in recent history, and thereby capture the Fund's strategies in situations where important Western economic and political interests are at stake. While the debt crisis of the 1980s was global in nature, both its trigger (Mexico in August 1982) and much of its evolution were closely tied to Latin America and therefore the Fund's interventions in the region bore the clear imprint of Western systemic concerns. After the Brady Plan largely signaled the end of the debt crisis, during the 1990s the post-communist economic reforms in Eastern Europe displaced Latin America as the Fund's primary focus. The Fund's very active role as an overseer of post-communist reforms reflected the high priority of these reforms on the political agenda of advanced Western democracies: even though the generally lower debt of the ex-communist countries represented less of a global systemic threat, the region's promise as an investment opportunity and emerging market in Europe's "backyard" raised its economic profile. More importantly, Western concerns about the political repercussions of the deep post-communist economic crisis meant that the Fund's role was to promote irreversible market reforms and to

reduce the potential of an anti-Western political backlash in a region whose proximity to Europe and nuclear weapons arsenals raised the stakes of widespread economic failure.

Compared to the deep and widespread economic malaise of the Latin American debt crisis and the post-communist transition, the crises experienced by Latin American countries in the 1990s were less likely to trigger serious concerns about broader regional and global repercussions. Since in post-1990 Latin America debt service payments (and the risk of default) had declined significantly from their peak level in the 1980s, while foreign reserves were higher and geopolitical stakes were lower than in Eastern Europe, the Fund's interventions in Latin America during the 1990s constitute a useful analytical counterpart to the intense crises that characterized the other two episodes. With a few notable exceptions (Mexico in 1994/5, and to some extent Brazil in 1999 and Argentina in 2000-1) the IMF interventions in Latin America were largely "business as usual," in the sense that they dealt with crises that affected primarily individual countries (and their investors) rather than posing significant threats to international economic and political stability. While the current analysis could be fruitfully extended to other regions and time periods, the choice of Latin America in the 1990s has the advantage of being more easily comparable to the two systemic crisis episodes discussed in this article than other case clusters, such as Africa in the 1990s.³⁰

Statistical results

Systemic importance and program initiation

The statistical results in Table 2 confirm that IMF programs during the Latin American debt crisis and the post-communist transition were affected by systemically-driven deviations from technocratic impartiality. Even though the effects of overall debt and imports were

relatively modest in Models 1,2,9&10, the interaction effects in Models 3,4,11&12 suggest that in line with the predictions of the systemic argument, economically important countries had an easier time securing IMF programs when facing severe economic crises but not otherwise.

Figure 1 illustrates the results of Model 3 in Table 2 by plotting the predicted probabilities of program initiation for Latin America during the 1980s as a function of the interest payment burden for a small debtor (set at the 10th percentile) and a large debtor (set at the 90th percentile).³¹ The graph reveals very different program initiation trajectories: whereas for the smallest debtors higher interest payments were only a modest (and statistically insignificant) driver of initiation, for the largest debtors the effect was large and highly statistically significant (at .01). In other words, IMF programs during the debt crisis were much more likely in situations where domestic concerns about honoring external obligations were reinforced by IMF concerns about systemic stability. As a result, large Latin American debtors received preferential access to IMF lending when facing serious crises,³² but the effect disappeared at moderate debt burdens and was even reversed in low-crisis situations, during which larger countries were less likely to enter IMF agreements (significant at .05).

[Table 2 and Figures 1-2 here]

A similar pattern of preferential treatment occurred during the post-communist transition. As illustrated in Figure 2, low reserve levels, which were a crucial indicator of post-communist external economic vulnerability, were much more likely to result in IMF programs in large importers,³³ whose economic trajectory had greater potential repercussions for regional and global welfare: thus, for large markets (90th percentile) lower reserves were associated with a large and statistically significant rise in the probability of a new IMF program,³⁴ whereas in small markets the effects were substantively modest and statistically inconclusive. As in Latin

America, however, size was associated with greater IMF presence only in situations of extreme economic duress,³⁵ i.e. posing the threat of systemically disruptive crises. Once again, the trend was reversed in low-crisis situations, as economically important countries were actually less likely to initiate IMF programs when their foreign reserves were at reassuring levels.

These findings confirm the importance of systemically motivated deviations from the principle of equal treatment during program initiation in the debt crisis and the post-communist transition. Economically important countries had easier access to IMF funding only when facing economic crises, which were sufficiently severe to threaten broader international repercussions. When not facing imminent crises, however, large countries were actually less likely to be involved with the IMF. This somewhat surprising finding may reflect the greater dependence of small countries on the Fund's seal of approval during non-crisis situations since private lenders are less likely to expend resources to monitor the economic policies of small markets and therefore rely more heavily on IMF signaling. However, this reversal also suggests an alternative conception of preferential treatment: since IMF programs entail sovereignty costs, the lower incidence of low-crisis IMF programs in large countries could reflect their greater ability to resist the policy pressures associated with IMF conditionality. Thus, economically important countries benefit both by being able to avoid IMF programs when not facing imminent economic pressures and by having fast-track access to IMF agreements when required by economic circumstances.

By comparison, deviations in Latin American IMF programs during the relatively economically stable 1990s are no longer fully consistent with systemic imperatives. Thus, Model 7 reveals a weak positive interaction effect between debt size and debt service burden but large debtors were significantly more likely to enter IMF programs for all but the lowest interest payment burdens,³⁶ meaning that preferential treatment was not limited to extreme crisis

situations. Furthermore, the positive interaction between debt size and reserves in Model 8 actually points in the wrong direction, since it suggests that liquidity crises mattered more for small debtors, and that large debtors had easier IMF access in low-crisis environments.³⁷ These findings suggest that in the absence of global crises, the Fund's deviations from technocratic impartiality are no longer limited to severe crisis situations as the Fund's main shareholders have greater leeway to use IMF resources for narrower economic or political objectives.

Private favors and program initiation

The tests in Table 3 focus on the narrower economic and political motivations for preferential IMF treatment. With respect to the predicted preferential treatment of large Western trading partners, the regressions suggest that the relative salience of such concerns depends on the regional context. Thus, Latin American countries with high US imports were not significantly more likely to enter IMF agreements in either the 1980s (Model 1) or the 1990s (Model 3), which suggests that the US did not use IMF lending to pursue its trade agenda in the Western hemisphere. On the other hand, the dramatic westward reorientation of trade in post-communist Eastern Europe had a more tangible effect on program access, as indicated by the large and statistically significant positive effect of EU imports in Model 5.

[Table 3 here]

The impact of geopolitical factors was also mixed and sensitive to regional context. On the one hand, Table 3 confirms the importance of geopolitical concerns in post-communist Eastern Europe: according to Model 5, even controlling for domestic politics and economic conditions, countries whose UN voting records were closer to the US were more likely to enter IMF agreements (marginally significant at .1 one-tailed.) Moreover, in line with Thacker's (1999)

findings, Model 6 indicates that even more than overall proximity what triggers preferential IMF treatment is rapprochement towards to US position (significant at .05). On the other hand the role of geopolitics was significantly weaker in Latin America: the positive but statistically insignificant effects of UN voting in Models 1&2 suggest that despite the ongoing Cold War rivalry between the US and the Soviet Union, geopolitical concerns in Latin America during the 1980s were overshadowed by the systemic imperatives of the debt crisis. By the 1990s systemic concerns had largely abated but geopolitical challenges to US hegemony in Latin America also declined after the end of the Cold War and the lower value of toeing the US line is reflected in the (albeit insignificant) negative effect of UN voting indicators in Models 3&4.

The empirical support for narrow “realist” deviations from technocratic lending practices was similarly mixed and context-dependent with respect to foreign aid. During the Latin American debt crisis, where systemic considerations were arguably the strongest, the effect of such narrow bilateral motivations was the weakest, as reflected by the weak and statistically insignificant initiation effect for US aid in Model 2. Somewhat surprisingly, according to Model 6, the impact of US aid was similarly modest during the post-communist transition, suggesting that any preferential access to IMF lending was counteracted by the softer budget constraints of large aid recipients.³⁸ The only episode, where large aid recipients were also more frequent IMF customers was Latin America in the 1990s: according to Model 4, greater US bilateral aid was associated with a noticeable increase in IMF program participation (significant at .05).

Among the other drivers of program initiation a few findings are worth noting. Economic crises mattered but their effect varied across episodes: thus, reserves mattered more in Eastern Europe, whereas interest payments played a more prominent role during the Latin American debt crisis. Inflation was a powerful initiation driver in Eastern Europe and in Latin America in the

1980s, but not in post-1990 Latin America. IMF recidivism had a large and statistically significant effect in Latin America in the 1980s and to some extent in Eastern Europe but not in Latin America in the 1990s. Finally, countries with better bureaucracies had an easier time securing IMF programs (especially in Eastern Europe) but government orientation and regime type played a fairly modest role.

Political drivers of loan size

Conditional lending involves a tradeoff between the economic adjustments required in exchange for differing levels of financial support. Since the stringency of loan conditions cannot be readily compared across time and space due to the changing nature of IMF conditionality,³⁹ the most straight-forward standard for assessing preferential treatment at the program design stage is to analyze the IMF loan size (Oatley and Yackee 2004). From a systemic point of view, we should expect larger relative loans when economically important countries face significant crises. Meanwhile, if large shareholders use IMF programs to reward their allies, funding differences should reflect the intensity of bilateral ties.

Table 4 reports the statistical results of cross-sectional time-series regressions with panel-corrected standard errors for the drivers of IMF loan size (as a share of the quota) for the three program clusters.⁴⁰ Economically important countries benefited from more generous loans in all three episodes: judging by Models 1, 4 and 7, the effect of debt size was positive and statistically significant in all three episodes.⁴¹ However, the extent to which these findings support the predictions of systemic stability theory depends on the interaction between size and economic crisis, which was once again context-dependent. As illustrated by Figure 3 (based on Model 2), the systemic threats of the Latin American debt crisis were also reflected in preferential lending

patterns: at modest interest rate burdens, small and large debtors received similar-sized loans, but large debtors were favored during significant crises (significant at .05). However, systemic predictions fared worse in the other two episodes: as reflected in Figure 4 (based on Model 5) in Latin America during the 1990s, overall debt size was positive and significant (at .05) for all interest payment levels and was only weakly affected by crisis intensity. Meanwhile, the positive interaction effect between debt size and reserves in Figure 5 suggests that in Eastern Europe preferential treatment in terms of IMF funding levels was noticeable only in low-crisis situations. This pattern is at odds with the imperatives of global public goods provision, since international financial stability would be better served if IMF largesse occurred in serious crisis situations.

[Table 4 and Figures 3-5]

For narrow “private goods” drivers of loan size, the effects were generally modest across the three episodes. US allies did not receive larger loans and in fact the effects of UN voting pointed in the wrong direction (especially in Latin America in the 1980s.) Narrow economic interests played a greater role in Latin America, where large markets for US imports received more generous loans in both the 1980s (Model 3) and the 1990s (Model 6), while bilateral trade effects were negligible in Eastern Europe (Model 9.) On the other hand, bilateral aid was significant in Eastern Europe (Model 9) but not in Latin America. However, these effects were weaker and no longer statistically significant once the models controlled for overall imports or debt (results omitted), which suggests that narrow realist favoritism was not a particularly important component of IMF generosity towards program countries.

Preferential treatment during implementation

Another form of preferential IMF treatment may occur after program initiation when the Fund has to determine whether the country's policies have sufficiently conformed to program conditions to justify the disbursement (or at least the availability) of committed funds. Even though much of the implementation success hinges on the commitment and the bureaucratic capacity of domestic political actors, the Fund has some leeway in judging compliance, since it can approve waivers that allow countries to miss certain program targets without having their program suspended.

According to Models 10-11 of Table 4, the correlates of program waivers in Eastern Europe confirm the importance of political criteria in post-communist IMF programs: large debtors received significantly more waivers (Model 10) and I obtained similar results using alternative size indicators. However, these deviations were not limited to extreme crisis situations,⁴² and therefore cannot be justified in systemic terms.

In terms of narrow private interest drivers of program waivers, Model 11 reveals negligible effects for bilateral trade, but large recipients of US aid were once more favored. The positive and significant effect of UN voting records in Models 10 and 11 indicates that the primary driver of selective enforcement was of a geopolitical rather than economic nature: Western allies were more likely to get a break when encountering reform setbacks. Combined with the positive (and marginally significant) effect of democracy on loan size, this finding suggests that the West used IMF lending to support its broader strategy of promoting the democratization and geopolitical reorientation of its erstwhile ideological rivals. While the success of this transition may be considered a global public good, it arguably falls outside the Fund's institutional mission, and thus constitutes a non-systemic deviation from technocratic impartiality.

The last part of the analysis focuses on the determinants of “good standing,” i.e. the Fund’s signal that a given program is on track, and that the government has access to program funds. In theory, compliance should be a straightforward reflection of the extent to which the government’s economic policies meet the IMF program targets. In practice, however, this technocratic calculus may be affected by international political considerations, resulting in different standards for different countries. To isolate the influence of international factors on the Fund’s enforcement of conditionality, the regressions in Table 5 control for the severity of the economic crisis and a variety of domestic factors and policy outcomes,⁴³ and correct for the selection bias arising from non-random selection into IMF programs.⁴⁴

The compliance evaluation patterns in Latin America in the 1980s reconfirm the overriding importance of systemic concerns during the debt crisis: whereas according to Model 1 overall debt did not matter, Model 2 of Table 5 reveals a powerful positive interaction effect between debt size and debt burden. As a result, large debtors only had better compliance evaluation records when facing severe debt service burdens⁴⁵ but these size effects disappeared for moderate crisis levels and were even reversed among countries with low interest payment burdens (see Figure 6). The Fund’s generosity towards large debtors was limited to intense crisis situations with systemic implications, and can therefore be justified from a public goods perspective. Meanwhile, the evidence for private goods deviations was much weaker: the effects of UN voting records (Model 1) and US imports (Model 3) were positive but statistically insignificant, while bilateral aid actually pointed in the wrong direction.

[Table 5 and Figures 6-7 here]

Even though the systemic threat posed by Latin American debtors was noticeably lower after 1990, the deviations from uniform implementation enforcement standards still reflected

important systemic elements: large debtors were more likely to be judged as compliant (Model 4), and the effects of economic importance were substantively and statistically more significant in countries with high interest payment burdens (see Figure 7 based on Model 5). Unlike during the debt crisis, however, the difference was largely driven by the decline in compliance evaluation rates for small debtors with heavy interest payment burdens rather than by the increase among large debtors. The evidence for narrowly motivated preferential treatment was modest, as neither UN voting (Model 4) nor US imports and foreign aid (Model 6) were statistically significant.

By comparison, post-communist IMF programs displayed weak evidence of systematic deviations from technocratic uniformity during implementation: according to Model 7, the impact of overall debt was negligible, and there was no interaction effect between size and economic crisis (results omitted). EU imports (Model 8) were positive but statistically weak while bilateral aid (Model 8) actually had a marginally significant negative impact. The only partial exception was once again UN voting, which had a marginally significant positive impact on compliance evaluation. How can these (non)findings be reconciled with the earlier evidence that large countries received more frequent program waivers than the average transition country? Since it is unlikely that favored countries had tougher initial program conditions, the most plausible answer is that the governments of such “special” countries exerted less effort to meet program conditions, and therefore failed to outperform their peers despite greater IMF concessions. This phenomenon was amplified by the fact that the costs of program failure were significantly lower for privileged countries, whose governments had easier access to IMF programs in crisis situations (according to the initiation-stage analysis.)⁴⁶

Conclusion

This article has confirmed that IMF involvement in the developing world has deviated from the principles of technocratic impartiality along several crucial dimensions, including program initiation, funding generosity, program waivers and compliance standards. Unlike earlier studies, however, the present analysis has moved beyond the simple dichotomy between technocratic interventions aimed at providing global public goods and preferential treatment driven by IMF political pandering to its largest shareholders. While instances of narrowly motivated favoritism towards Western allies fit neatly into a realist framework, preferential lending is not simply a question of public vs. private goods but may arise from the tension inherent in the Fund's different institutional responsibilities. In particular, the Fund's systemic responsibility to ensure international financial stability and orderly trade expansion may require special precautions to reduce the regional and global reverberations of economic crises in large developing countries. Therefore, preferential treatment of systemically important countries can be justified from an institutionalist perspective as long as it is confined to intense crisis situations.

Empirically, the paper shows that the relative importance of public vs. private goods considerations in IMF lending depended on the broader regional and international context of these interventions. During the Latin American debt crisis, preferential treatment patterns consistently reflected the Fund's systemic concerns about the international repercussions of an *en masse* Latin American default: thus, large debtors benefited from preferential treatment during program initiation, design and implementation but only when confronting severe debt service burdens. In the absence of such emergency conditions, however, large economies did not receive special favors during the 1980s. In other words, IMF favoritism during the debt crisis manifested itself not in the Fund's baseline policies towards Latin American debtors but in its reactions to

significant economic crises, which received prompter and more generous support in systemically important countries. Moreover, the severity of systemic concerns crowded out narrower, realist, economic and geopolitical interests as drivers of preferential treatment.

By comparison, the East European and Latin American IMF programs in the 1990s reflected the lower international financial stability threats in the context of a healthier global economic environment. Nonetheless, certain aspects of IMF lending during the 1990s – such as program initiation in Eastern Europe and to some extent compliance evaluation in Latin America – showed the “classical symptoms” of systemic favoritism, whereby large countries were only favored in intense crisis environments. On the other hand, other aspects of preferential treatment in the 1990s – program initiation in Latin America and loan size in Eastern Europe – cannot be justified on the basis of the Fund’s systemic stability mandate, since the deviations from equal treatment were more pronounced in low-crisis environments. Moreover, the IMF programs of the 1990s reveal a greater role of narrow interest-based interventions by Western shareholders but the specific type of driver differed between the two regions. Among ex-communist countries, Western geopolitical allies and trade partners received preferential IMF treatment, suggesting that IMF lending was subordinated to the broader Western agenda of incorporating its former communist rivals into a liberal world order. By comparison, in Latin America geopolitical concerns were less important but large bilateral aid recipients had easier access to IMF lending.

In theoretical terms, I have argued that preferential treatment by international organizations, such as the IMF, is not always the result of commitment failures of powerful shareholders in pursuit of narrow realist interests. Instead, such deviations can reflect the competing policy demands of different public goods provided by a given IO, and are therefore inherent in the institutional design of international organizations. The predominance of systemic

preferential treatment during the debt crisis of the 1980s indicates that when faced with serious international crises, large nation-states are more likely to sideline their narrow realist interests in order to allow IOs to deliver crucial public goods. However, the mixed record of the 1990s indicates that realist interference resurfaces once the more immediate systemic threats recede. Nonetheless, the statistical support for narrow political pandering was rather inconsistent even during the 1990s, which suggests that the significance of such political interference may not be nearly as universal as suggested by earlier studies spanning multiple regions and time periods.⁴⁷ While less blatantly arbitrary than the “loans-for-allies” approach, the decision of what qualifies as a systemic threat and the relative balance between competing public goods are ultimately political decisions, whose resolution is bound to reflect the uneven power balance between member states. Therefore, systemic exceptionalism reflects a constant tension between the institutionalist goal of power delegation to IOs for provision of international public goods and realist conflicts about which public goods to pursue and who should pay for them. Thus, systemic exceptionalism constitutes a hybrid category, which defies the traditional realist-institutionalist dichotomy and deserves greater attention in future research.

Methodologically, this article emphasizes the importance of analyzing preferential treatment as a dynamic process reflecting the interaction between economic/political importance and economic crisis intensity rather than assuming preferential treatment to be uniform (as the existing literature has implicitly done). While interaction effects are indispensable for assessing systemically motivated favoritism, they can also shed useful light on the nature of narrowly motivated preferential treatment, and should be considered more carefully in future research.

This article also illustrates the importance of systematic cross-temporal and cross-regional analyses of IMF lending and of IO interventions more broadly. The significant temporal and

spatial variation in Western economic and geopolitical interests renders such an analytical approach more appropriate than the traditional approach of statistical analyses of samples spanning multiple regions and decades. While the “lumping” approach yields larger samples and produces more sweeping statements about the politics of IO interventions, its analytical utility hinges on the degree to which its implicit causal homogeneity assumption is fulfilled. Given the significant differences in IMF lending patterns for the three episodes analyzed in this article – differences which are not limited to variations in statistical significance due to different sample sizes – the statistical results presented here question this crucial assumption and may explain some of the contradictory findings of earlier studies, which paid less attention to sample selection. By comparison, the more fine-tuned “splitting” approach has at least three analytical advantages: first, it avoids making general claims based on findings confined to a certain regional/temporal context; second, it can identify empirical patterns occurring in a certain context, which could be washed out in broader multi-region/multi-period samples; and finally, it allows for a more dynamic understanding of how IO behavior responds to the changing interests of its largest shareholders, instead of assuming time and space-invariant effects.

From a policy standpoint, the article confirms that IMF lending does not proceed along purely meritocratic criteria. Since preferential lending wastes scarce IMF resources and undermines the credibility and effectiveness of IMF conditionality, the obvious policy question is how to reduce the incidence of this practice. For narrowly motivated favoritism, the ideal solution would obviously be to replace it through direct bilateral aid for allied countries. However, in reality, the US and other large shareholders are unlikely to resist the temptation of using IMF resources as an alternative aid source, since it allows them to leverage their own contributions and it can be used to channel aid to regimes whose political track record limits their

eligibility for direct foreign aid. The problem is even more complicated for systemically motivated preferential treatment because no amount of political restraint from large IMF members can change the fact that some countries are too large to fail, and their governments are likely to exploit this fact to extract significant concessions. However, since such brinkmanship tactics are also very risky for the governments employing them, the incidence of such situations could be greatly reduced if the bar of “too large to fail” status was set sufficiently high and even the largest countries would face sufficient uncertainty about their exceptional status. From this perspective, the Argentine default of 2001 may actually be a blessing in disguise.

Bibliography

- Baldwin, David, ed. 1993. *Neorealism and Neoliberalism*. New York: Columbia University Press.
- Barro, Robert J. and Jong-Wha Lee. 2002. "IMF Programs: Who is Chosen and What Are the Effects?" *NBER Working Paper 8951*.
- Beck, Nathaniel, Jonathan Katz, and Richard Tucker. 1998. "Taking Time Seriously: Time-Series-Cross-Section Analysis with a Binary Dependent Variable," *American Journal of Political Science* 42(4):1260
- Brambor, Thomas, William Clark, Matt Golder. 2006. "Understanding Interaction Models: Improving Empirical Analyses." *Political Analysis* 14:63–82.
- Bird, Graham. 1995. *IMF Lending to Developing Countries: Issues and Evidence*. London: Routledge.
- Bird, Graham and Dane Rowlands. 2001. "IMF Lending: How is it affected by economic, political, and institutional factors?" *The Journal of Policy Reform* 4 (3):243–270.
- Bird, Graham; Mumtaz Hussain and Joseph P. Joyce. 2004. "Many happy returns? Recidivism and the IMF" *Journal of International Money and Finance*, 23(2): 231-251.
- Cornelius, Peter. 1987. "The demand for IMF credits by sub-Saharan African countries." *Economics Letters*. 23: 99-102.
- Coppedge, Michael. 1997. "A classification of Latin American political parties." *Kellogg Institute Working Paper 244*.
- Dreher, Axel and Nathan Jensen. 2007. "Independent Actor or Agent? An Empirical Analysis of the Impact of US Interests on IMF Conditions" *The Journal of Law and Economics* 40(1)
- Dreher, Axel, Jan-Egbert Sturm and James Vreeland. 2006. "Does membership on the UN Security Council influence IMF decisions? Evidence from panel data." CESifo Working Paper Series No. 1808.
- Gartzke, Erik. 2000. "Preferences and the Democratic Peace." *International Studies Quarterly* 44(2):191-210.

- Gould, Erica. 2003. "Money Talks: Supplementary Financiers and International Monetary Fund Conditionality." *International Organization* 57:551-586.
- Guitian, Manuel. 1981. "Fund Conditionality: Evolution of Principles and Practices." *IMF Pamphlet Series* 38.
- Haggard, Stephan and Robert R. Kaufman. 1995. *The Political economy of democratic transitions*. Princeton, N.J., Princeton University Press.
- Haggard, Stephan and Steven Webb. 1994. "Introduction," in Haggard and Webb, eds., *Voting for Reform: Democracy, Political Liberalization and Economic Adjustment*, Washington DC: World Bank.
- Heckman, James. 1979. "Sample Selection Bias as a Specification Error." *Econometrica* 47(1):153-162.
- International Monetary Fund. 2001 "Conditionality in Fund-Supported Programs - Policy Issues," Policy Development and Review Department.
- Ivanova, Anna, Wolfgang Mayer, Alex Mourmouras, and George Anayiotos. 2003. "What Determines the Implementation of IMF-Supported Programs?" *IMF WorkingPaper* 03/08.
- Jorge, Antonio. 1985. *External debt and development strategy in Latin America*. New York: Pergamon Press.
- Kaufman, Robert and Barbara Stallings. 1989. "Debt and democracy in the 1980s: the Latin American experience." In *Debt and Democracy in Latin America*, ed. B Stallings, R Kaufman, Boulder, CO: Westview.
- Keohane, Robert O. and Lisa Martin. 1995. "The Promise of Institutional Theory." *International Security* 20(1):39-51.
- King, Gary, Michael Tomz, and Jason Wittenberg. 2000. "Making the Most of Statistical Analyses: Improving Interpretation and Presentation." *American Journal of Political Science* 44(2): 347-61.
- Knight, Malcolm and Julio Santaella. 1997. "Economic determinants of IMF financial arrangements." *Journal of Development Economics* 54:405-436.
- Krasner, Stephen D. 1985. *Structural Conflict: The Third World against Global Liberalism*. Berkeley: University of California Press.

Lodola, German. 2005. "Executives, Legislatures, and the Political Economy of Market Reforms in Latin America (1985-1999)" Paper presented at the annual meeting of the The Midwest Political Science Association. Chicago, Illinois, Apr 07, 2005.

Mainwaring, Scott and Aníbal Pérez-Liñán (2007) "Why Regions of the World are Important: Regional Specificities and Region-Wide Diffusion of Democracy." In Gerardo Munck, ed., *Regimes and Democracy in Latin America*. Oxford: Oxford University Press.

Masson, Paul and Michael Mussa. 1997. "The Role of the IMF" *IMF Pamphlet Series No.50*.

Mearsheimer, John. 1994. "The False Promise of International Institutions." *International Security* 19. 3):5-49.

Milner, Helen and Keiko Kubota. 2005. "Why the Move to Free Trade? Democracy and Trade Policy in the Developing Countries." *International Organization* 59:107-143.

Milner, Helen and Benjamin Judkins. 2004. "Partisanship, Trade Policy, and Globalization: Is There a Left-Right Divide on Trade Policy?" *International Studies Quarterly* 48(1):95-120.

Oatley, Thomas and Jason Yackee, 2004, "American Interests and IMF Lending." *International Politics* 41(3): 415-429.

Pastor, Manuel. 1987. *The International Monetary Fund and Latin America*, Boulder and London: Westview Press.

Polak, Jacques. 1991. "The Changing Nature of Conditionality" *Essays in International Finance*, No. 84 Princeton NJ: Princeton University Press.

Santaella, Julio. 1996. "Stylized Facts Before IMF-Supported Macro-Economic Adjustment," *IMF Staff Papers*, 43(3).

Simmons, Beth and Zachary Elkins. 2004. "The Globalization of Liberalization: Policy Diffusion in the International Political Economy" *American Political Science Review*, 98: 171-189.

Stallings, Barbara. 1992. "International Influence on Economic Policy: Debt, Stabilization, and Structural Reform," in Stephan Haggard and Robert Kaufman, eds., *The Politics of Economic Adjustment*. Princeton, NJ: Princeton University Press pp. 41-88

Steinwand, Martin and Randall W. Stone (2008) "The International Monetary Fund: A Review of the Recent Evidence." *Review of International Organizations* (forthcoming).

Stone, Randall W. 2002. *Lending credibility: the International Monetary Fund and the post-communist transition*, Princeton, N.J.: Princeton University Press.

Stone, Randall. 2004. "The Political Economy of IMF Lending in Africa." *American Political Science Review* 98: 577-591.

Strange, Susan. 1997. *The Retreat of the State*. New York: Cambridge University Press.

Swedberg, Richard. 1986. "The Doctrine of Economic Neutrality of the IMF and the World Bank," *Journal of Peace Research* 23(4).

Thacker, Strom. 1999. "The High Politics of IMF Lending." *World Politics* 52(1):38-75.

Tucker, Joshua. 2006. *Comparative Economic Voting: Economic Conditions and Election Results in Russia, Poland, Hungary, Slovakia and Russia from 1990-99*. New York: Cambridge University Press.

Tussie, Diana and Mirta Botzman (1990) "Sweet Entanglement: Argentina and the World Bank 1985-89." *Development Policy Review* 8:393-409.

Vreeland, James. 2003. *The IMF and economic development*. New York, Cambridge University Press.

Appendix

Table 1: Overview of key variables

Variable	Operationalization	Source
Program initiation	1 if IMF agreement signed in a given quarter, 0 – otherwise	Author’s coding based on IMF Survey
Loan size	Committed program funding as % of IMF quota (annualized)	Author’s calculation based on IMF Survey, International Financial Statistics
Program waivers	# of program waivers granted	Ivanova et al (2003)
Program compliance evaluation	1 if IMF agreement active in a given quarter (disbursed funding or precautionary agreement without negative IMF assessment), 0 – otherwise	Author’s coding based on IMF Survey + IMF country desks
Total debt	Total foreign debt (prev. year) – logged	Global Development Finance
Total imports	Total imports (prev. 4 quarters) – logged	Direction of Trade Statistics
Imports from US	Total imports from US (prev. 4 quarters) – logged	Direction of Trade Statistics
Imports from EU	Total imports from EU (prev. 4 quarters) – logged	Direction of Trade Statistics
US Aid	Bilateral aid from US (prev. year) – logged	Development Assistance Committee (DAC) – OECD
UN voting (y-1)	% coincidence of country’s UN voting record with US (y-1)	US State Department
Chg UN voting	Change in UN voting coincidence with US from y-2 to y-1	Author’s calculations based on US State Department data
Reserves/imports	Int’l reserves (prev. quarter)/ Imports (prev.year) in months	Int’l Financial Statistics
Interest/GNP	Interest payments/GNP (prev. year) – logged	Global Development Finance
Inflation	Consumer price inflation (various lags) - logged	Int’l Financial Statistics, EIU Country Data
Inflation change	Change in CPI (between t-2 and t-1) – logged	Int’l Financial Statistics, EIU Country Data
Quality of governance	Latin America: 0 (low)- 5(high)	<i>International Country Risk Guide (ICRG)</i>
	Eastern Europe: 0 (low)- 6(high)	<i>Nations in Transit</i> + author’s coding
Regime	DEM score – AUT score +10 → 0 (low) -20(high) scale	Polity database
Government orientation	LA: 0 (Right) – 4 (Left)	Coppedge (1995), Lodola (2005) + author’s coding
	EE: 1 - ex-communist/nationalist , 0 - otherwise	Author’s coding
Total number of conditions	Total number of IMF program conditions	Ivanova et al (2003)
IMF program history	% of time spend under IMF agreements in 5 years prior to current year	Author’s coding based on IMF Survey data
Neighbors’ IMF program	% of neighboring countries with IMF programs in prev. quarter	Author’s coding based on IMF Survey data

Table 2: Program Initiation – Systemic Drivers

	Latin America 1982-89				Latin America 1990-2001				Eastern Europe 1990-2001			
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10	Model 11	Model 12
Total debt (log)	-.052 (.261)		- 2.029** (.903)		.557* (.339)		.250 (.728)	.401 (.441)	.157 (.133)		.397** (.180)	
Total imports (log)		-.023 (.261)		-2.65** (1.03)		-.004 (.209)				.249** (.122)		.439*** (.159)
Total debt* Interest/GNI			1.109** (.480)				.246 (.530)					
Total imports* Interest/GNI				1.57*** (.59)								
Total debt* Reserves (t-1)								.029 (.056)			-.148** (.076)	
Total imports* Reserves (t-1)												-.156** (.072)
Interest/GNI	.876** (.407)	.857** (.394)	-.480 (.698)	- 1.073** (4.144)	.343 (.682)	.104 (.508)	-.199 (1.329)	.344 (.675)	.483 (.432)	.558 (.418)	.436 (.436)	.480 (.415)
Reserves (t-1)	-.276*** (.101)	- .275*** (.100)	- .313*** (.104)	- .283*** (.106)	-.061 (.084)	.029 (.058)	-.059 (.083)	-.155 (.203)	- .596*** (.158)	-.60*** (.155)	-.202 (.234)	.832 (.648)
Inflation (lagged)	.275* (.168)	.263** (.158)	.368** (.184)	.364** (.166)	-.317 (.244)	-.042 (.181)	-.283 (.253)	-.291 (.241)	.269** (.138)	.276** (.138)	.335** (.139)	.340** (.138)
Government orientation	-.309* (.183)	-.311* (.183)	-.223 (.192)	-.276 (.189)	-.110 (.224)	-.217 (.190)	-.117 (.225)	-.108 (.222)	-.086 (.352)	-.075 (.342)	.072 (.367)	.043 (.352)
Quality of bureaucracy	.333 (.239)	.321 (.247)	.518* (.273)	.277 (.250)	.196 (.358)	.065 (.284)	.210 (.357)	.211 (.363)	.699** (.280)	.743*** (.283)	.719** (.280)	.736*** (.280)
Regime	.032 (.040)	.035 (.038)	.044 (.043)	.087** (.043)	-.013 (.083)	-.031 (.065)	-.017 (.084)	-.016 (.082)	-.033 (.052)	-.030 (.052)	-.031 (.052)	-.022 (.052)
GDP/capita	.084 (.135)	.077 (.135)	.135 (.136)	.128 (.137)	.177 (.144)	.175* (.095)	.191 (.147)	.173 (.141)	-.211 (.159)	-.310* (.178)	-.208 (.156)	-.257 (.170)
IMF Program History	2.325** (1.029)	2.372** (1.011)	2.442** (1.020)	2.317** (1.014)	-1.291 (1.207)	-.257 (.857)	-1.329 (1.181)	-1.177 (1.201)	1.339 (1.049)	1.196 (1.052)	1.495* (1.063)	1.341 (1.070)
Observations	495	495	495	495	733	733	733	733	622	622	622	622
Chi-squared	44.66	44.70	46.56	46.97	27.51	35.33	27.85	28.05	53.93	55.80	57.46	59.93

Logistic regression coefficients with standard errors in parentheses * 10%; ** 5%; * 1% (one-tailed where appropriate)**

Table 3: Program Initiation – Narrow Economic and Geopolitical Drivers

	Latin America 1982-89		Latin America 1990-2001		Eastern Europe 1990-2001	
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Imports from US	.194 (.194)		-.005 (.172)			
Imports from EU					.236** (.110)	
US Aid		.050 (.169)		.487*** (.187)		.072 (.106)
UN voting (y-1)	.040 (.045)	.036 (.051)	-.011 (.013)	-.012 (.016)	.022* (.016)	.013 (.016)
Chg. in UN voting		.036 (.061)		-.037 (.032)		.054** (.022)
Interest/GNP	.856** (.400)	.923** (.408)	.111 (.507)	.277 (.634)	.539 (.421)	.655 (.425)
Reserves (t-1)	-.271*** (.102)	-.289*** (.107)	.029 (.056)	.004 (.071)	-.608*** (.155)	-.560*** (.154)
Inflation (t-1)	.358* (.185)	.319* (.184)	-.058 (.182)	.010 (.235)	.281** (.136)	.236* (.140)
Government orientation	-.279 (.189)	-.288 (.186)	-.226 (.191)	-.141 (.214)	-.145 (.345)	-.143 (.347)
Quality of bureaucracy	.200 (.240)	.259 (.213)	.061 (.289)	.268 (.351)	.642** (.291)	.611** (.295)
Regime	.044 (.038)	.059 (.039)	-.032 (.067)	-.047 (.076)	-.033 (.053)	-.040 (.055)
GDP/capita	.057 (.127)	.160 (.129)	.178* (.093)	.488*** (.162)	-.364* (.190)	-.187 (.155)
IMF Program History	2.715*** (1.027)	2.757*** (1.021)	-.166 (.860)	-.995 (1.087)	1.245 (1.059)	1.591* (1.044)
Observations	495	467	733	733	609	610
Chi-squared	44.09	41.93	35.69	33.24	56.64	57.17

Logistic regression coefficients with standard errors in parentheses * 10%; ** 5%; *** 1% (one-tailed where appropriate)

Table 4: Program Design Drivers

	Loan Size									Program waivers	
	Latin America 1982-89			Latin America 1990-2001			Eastern Europe 1990-2001			Eastern Europe 1993-8	
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10	Model 11
Total debt	.127**	-.047		.573** *	.382		.089**	.027		.211*	
	(.058)	(.212)		(.147)	(.340)		(.043)	(.061)		(.135)	
Total debt*		.091			.175						
Interest/GNP		(.110)			(.304)						
Total debt*								.040			
Reserves (t-1)								(.026)			
UN voting (y-1)			-.018*			-.004			-.004	.037***	.048***
			(.010)			(.009)			(.005)	(.010)	(.009)
Imports from US			.091**			.441**					
			(.049)			(.184)					
Imports from EU									-.009		-.073
									(.030)		(.081)
US Aid			-.045			-.037			.070** *		.252**
			(.034)			(.122)			(.025)		(.106)
Interest/GNP	-.037	-.117	-.07	- 1.07**	- 1.401*	- .880**	-.106	-.085	.013	-.258	-.214
	(.117)	(.165)	(.13)	(.454)	(.775)	(.437)	(.091)	(.092)	(.087)	(.326)	(.307)
Reserves (t-1)	-.037	-.117	-.048	.078	.082	.145*	-.059*	- .176**	-.055*	-.034	.046
	(.117)	(.165)	(.118)	(.081)	(.081)	(.078)	(.033)	(.081)	(.033)	(.101)	(.069)
Inflation (t-1)	-.060**	- .056**	-.037	-.043	-.037	.202**	.103** *	.085** *	.111** *	.140	.176
	(.025)	(.026)	(.026)	(.084)	(.084)	(.084)	(.030)	(.032)	(.031)	(.106)	(.119)
Regime	.004	.018	.012	.089	.095	.045	.023**	.019*	.023**	.044	.028
	(.040)	(.046)	(.036)	(.082)	(.085)	(.088)	(.011)	(.012)	(.012)	(.045)	(.052)
Government orientation	.018	.019	.017	.301*	.298*	.354**	.033	.022	-.023	.194	.079
	(.015)	(.014)	(.013)	(.156)	(.158)	(.162)	(.074)	(.071)	(.071)	(.359)	(.311)
Quality of bureaucracy	.026	.028	.026	- .48***	-.44**	- .68***	-.022	-.001	-.023	-.711**	-.750**
	(.042)	(.040)	(.038)	(.157)	(.174)	(.226)	(.056)	(.056)	(.058)	(.277)	(.325)
GDP/capita	-.074	-.067	-.075	-.015	-.018	.076	.030	.020	.071	.249*	.437***
	(.076)	(.076)	(.063)	(.085)	(.086)	(.113)	(.040)	(.039)	(.045)	(.145)	(.139)
IMF Program History	.028	.036	.043	.153	-.007	.333	-.291	-.321	-.157	1.012	.860*
	(.028)	(.029)	(.032)	(.521)	(.561)	(.557)	(.214)	(.205)	(.213)	(.637)	(.451)

Total # of conditions										.013***	.013***
										(.002)	(.002)
Observations	44	44	43	48	48	48	72	72	72	264	264
R-squared	.75	.75	.77	.55	.55	.50	.61	.62	.59	.51 ^a	.50 ^a

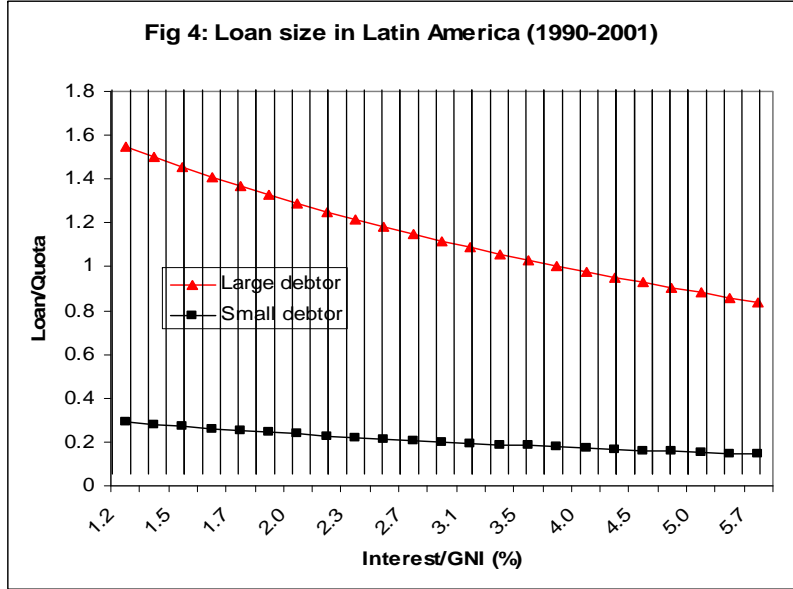
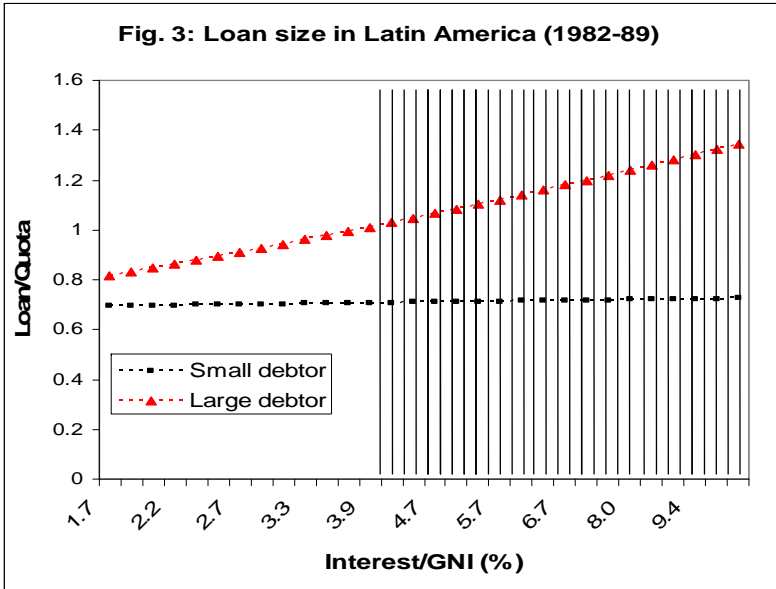
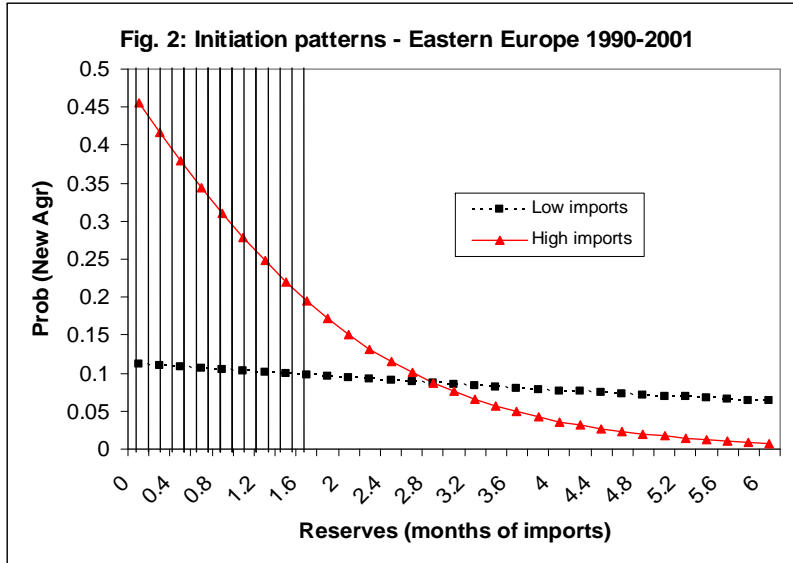
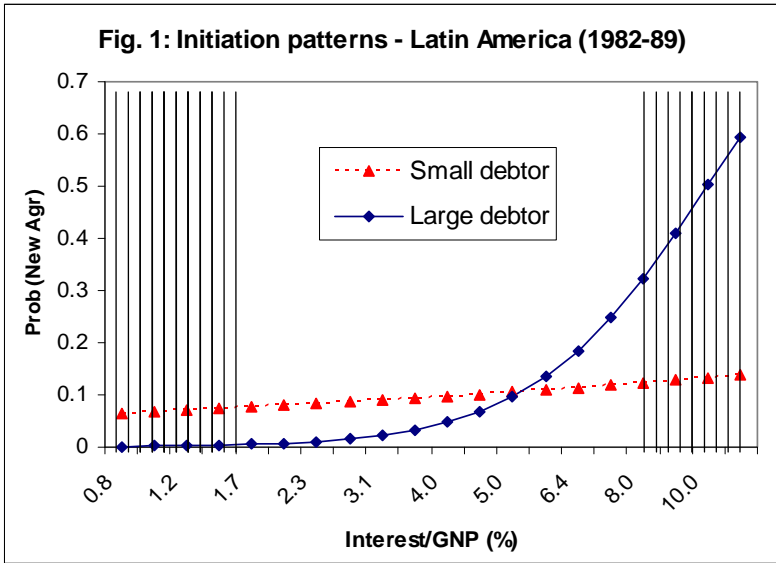
Regression coefficients with standard errors in parenthesis * significant at 10%; ** 5%; * 1% (one-tailed where appropriate)
a. McFadden's R-squared for zero-inflated Poisson regressions).**

Table 5: Program compliance evaluation drivers

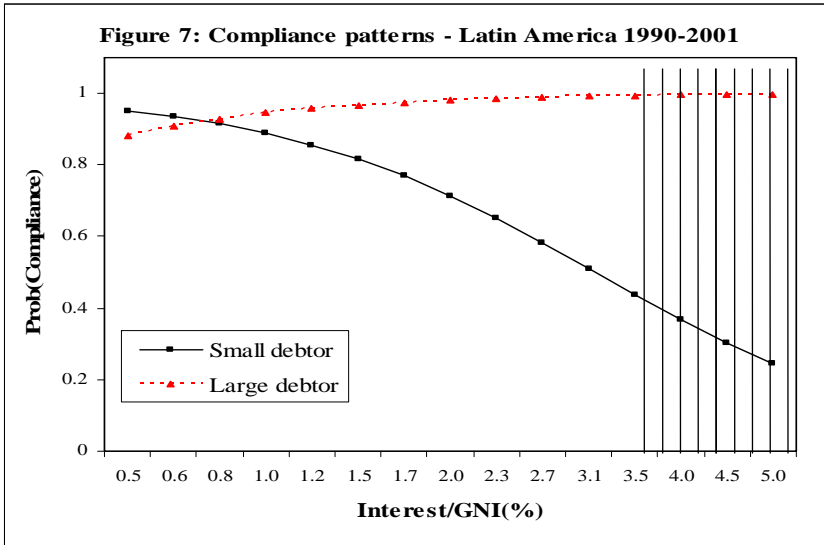
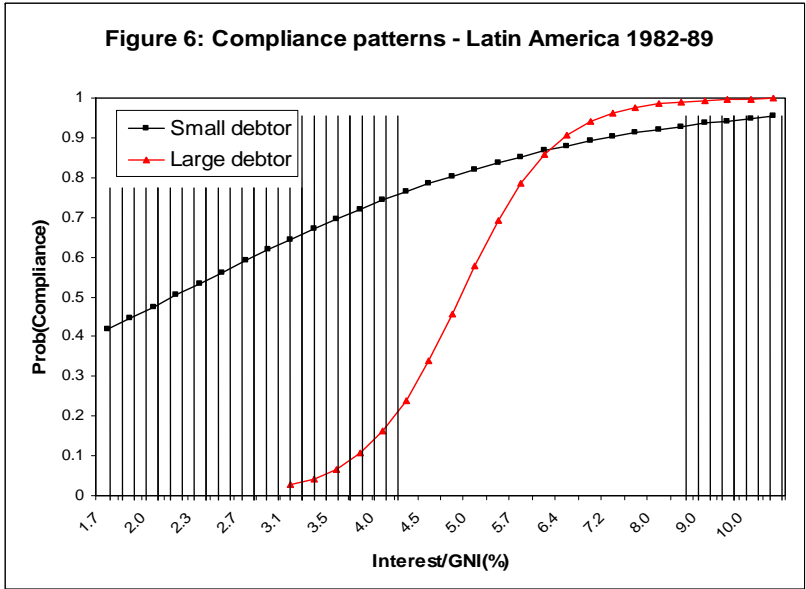
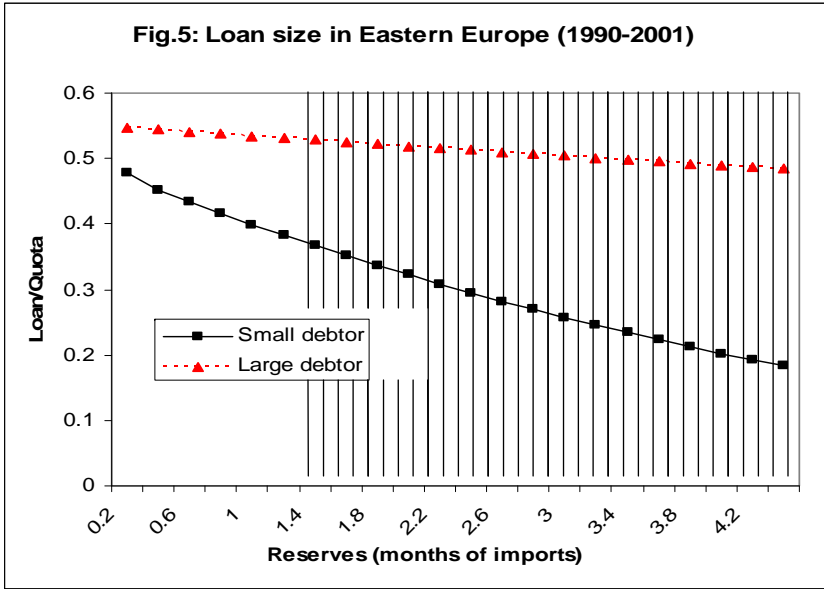
	Latin America 1982-89			Latin America 1990-2001			Eastern Europe 1990-2001	
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Total debt	.099	- 4.19***		.658***	-.366		-.016	
	(.356)	(1.268)		(.245)	(1.088)		(.189)	
Total debt* Interest/GNP		2.136** *			.985*			
		(.627)			(.622)			
UN voting (y-1)	.021			.020			.055*	
	(.057)			(.017)			(.037)	
US Aid			-.446			-.074		-.283*
			(.294)			(.400)		(.167)
US imports			.222			.101		
			(.348)			(.236)		
EU imports								.102
								(.337)
Interest/GNP	2.003***	.077	2.516** *	-1.279*	- 3.568**	-.534	-1.396*	-.713
	(.573)	(.707)	(.661)	(.696)	(1.753)	(.887)	(.719)	(.703)
Reserves (t-1)	-.210*	-.231*	-.145	-.172**	-.190	-.063	- .544***	-.450**
	(.117)	(.120)	(.117)	(.079)	(.326)	(.152)	(.184)	(.182)
Inflation (t-1)	.526	.813**	.412	-.402*	-.472*	-.335	.226	.132
	(.350)	(.372)	(.335)	(.228)	(.284)	(.270)	(.206)	(.190)
Inflation change	-.623	-.556	-.567	-.017	-.040	-.154	-.904**	-.600*
	(.403)	(.413)	(.400)	(.820)	(.839)	(.812)	(.426)	(.363)
Regime	-.055	-.039	-.076	.083	.098	.017	.200**	.141*
	(.047)	(.045)	(.049)	(.097)	(.117)	(.121)	(.098)	(.085)
Government orientation	-.203	-.207	-.229	.277	.191	.179	-.021	.128
	(.197)	(.200)	(.209)	(.235)	(.315)	(.266)	(.513)	(.497)
Quality of bureaucracy	.202	.594*	.030	-.745**	-.678*	-.824	.544	.540
	(.360)	(.334)	(.358)	(.328)	(.370)	(.575)	(.378)	(.394)
GDP/capita	.003	.147	-.054	-.160	-.022	.187	.354	-.233
	(.160)	(.167)	(.179)	(.133)	(.307)	(.207)	(.290)	(.453)
Inverse Mills ratio	3.858***	4.267** *	3.136** *	3.532** *	3.500** *	4.457** *	1.766** *	5.37***
	(.820)	(.898)	(.864)	(1.039)	(1.001)	(1.384)	(.398)	(.000)

Observations	255	255	245	371	379	379	404	404
Chi-squared	64.17	62.51	59.19	86.93	73.35	74.29	82.64	74.31

Logistic regression coefficients with standard errors in parentheses * 10%; ** 5%; * 1% (one-tailed where appropriate)**



Note for Figures 1-4: Statistical significance for predictor variable: continuous line ($p < .05$), dotted line ($p > .05$).
 Statistical significance for modifier variable: striped area ($p < .05$).



Note for Figures 5-7: continuous line indicates statistical significance at $p < .05$, dotted line indicates lack of statistical significance. Striped area indicates statistical significance (at $p < .05$) for modifier variable.

¹ G7 members controlled 45 % of IMF votes, while the US's 17.5% vote share gives it de facto veto power, since an 85% majority is needed to pass key IMF decisions.

² For example, Swedberg (1986) attacks the Fund's economic neutrality claim by arguing that IMF conditionality is politically biased in favor of a particular type of society (an internationally open market economy with weak labor movements). See also Payer (1974).

³ For an excellent review of this literature see Steinwand and Stone (2008).

⁴ Thacker (1999) and Bird and Rowlands (2001) acknowledge that their statistical findings are different pre and post 1990 (and attribute these differences to the end of the Cold War) but they do not address regional heterogeneity or the changing nature of IMF conditionality.

⁵ Thus, the exposure to Latin American debt of the top-nine US commercial banks amounted to 176.5% of their total capital in late 1982, and even though it declined over the course of the decade, it still accounted for a very threatening 110% of total capital in late 1986. (Sachs et al 1987)

⁶ As a result of the Brady Plan, Latin American commercial bank debt declined significantly after 1989, and even though it started increasing again in the late 1990s, it was much less concentrated than previously, thereby resulting in declining exposure rates for top US commercial banks (33% of total capital by late 2000). By contrast, Eastern European regional commercial bank debt amounted to less than a third of Latin American levels, and the exposure of top US commercial banks was negligible throughout the period. Similarly, even though the total debt of the ex-communist grew significantly over the course of the 1990s, its overall size in 2001 (\$378bn) was still only about half of the Latin America's total debt (\$766bn).

⁷ See for example Stone's (2002) discussion of Russia and Tussie and Botzman (1990) analysis of Argentina.

⁸ For eloquent arguments in this sense, see especially Thacker (1999) and Stone (2002).

⁹ I have included all independent Latin American and Caribbean countries with populations greater than 1 million, with the exception of Cuba, which was not a member of the IMF during this time period.

¹⁰ The sample includes all the East European and Eurasian transition economies except Serbia-Montenegro and Bosnia, for which reliable economic data was missing for much of the 1990s.

¹¹ Of course it is possible that under pressure from its main shareholders, the Fund may approve an incompletely implemented program, or withhold its seal of approval despite adequate implementation. While such deviations are potentially problematic for studies focusing on domestic drivers of implementation, they are actually useful for identifying preferential treatment.

¹² For example, compliance does not capture the actual target fulfillment by the program country, since consistent cross-national data was not available for enough programs discussed in this article. Even the

more nuanced data available for some recent IMF programs, which includes the number of missed and fulfilled targets, cannot provide a fully objective comparative yardstick for judging IMF lending practices, since we do not know the relative stringency of the initial target or the severity of the deviation.

¹³ One alternative is to use bivariate probit models with partial observability along the lines of Vreeland (2003). However, the results of such tests are highly sensitive to the decision about which variables matter for the IMF and the government. (Steinwand and Stone 2008) Given the strategic nature of the interaction between the two protagonists, it is difficult to determine the proper “instruments,” which only affect one of the two actors. For example, while economic size works primarily through the Fund’s decision to give large countries preferential treatments, the governments of such countries are aware of these considerations, and are therefore likely to adjust their strategies accordingly.

¹⁴ Except under extraordinary circumstances, members can only borrow up to 100% of the quota annually and up to 300% of the quota cumulatively.

¹⁵ I obtained similar results using alternative measures, including short-term debt and total trade as well as global shares of trade and debt (results omitted).

¹⁶ The measures are lagged by a year to avoid the possibility of reverse causation, since IMF programs may affect overall debt and import levels. Since debt and imports are highly correlated (at .8 or higher), model specifications only include one of the two indicators.

¹⁷ However, Dreher et al (2006) also find evidence that membership in the UN Security Council leads to preferential treatment by the IMF.

¹⁸ I obtained similar results using a measure that only considers key UNGA votes (Thacker 1999) but ultimately I agree with Barro and Lee’s (2002) argument that the decision about which votes to count as “important” introduces an unnecessary degree of arbitrariness in the coding. Nor were the results affected if I used the affinity scores in UN voting advocated by Gartzke (2000).

¹⁹ In addition, I tested whether IMF lending was affected by the source of a given country’s foreign debt (captured as the proportion of debt denominated in either \$US or major European currencies) and by the share of central bank and private lending in overall debt but the results were modest and are omitted here.

²⁰ Following Milner and Kubota (2005), I also tested a variety of threshold indicators of crisis, but these produced weaker results than the continuous measures presented below.

²¹ See for example, Cornelius 1987, Bird 1995, Santaella 1996, Knight and Santaella 1997, Stone 2002.

²² I tested different lags of quarterly logged inflation and present the lag version that produced the most powerful statistical results.

²³ For an argument along these lines, see Vreeland (2003).

²⁴ Since Coppedge's data does not extend past 1995 and does not include all the Central American and Caribbean countries in my sample, I have coded the missing countries and years using data from secondary sources.

²⁵ Since no scores were available for 1990 to 1992 I have coded the variable for these years by adjusting the scores for 1993 for the changes in governance and public administration discussed in the 1995 edition of *Nations in Transit*.

²⁶ There are, however, a few exceptions (e.g. Stone 2002, 2004 uses monthly data).

²⁷ To facilitate the substantive interpretation of the coefficients, I report odds ratios, which means that coefficients below one indicate a negative effect for the respective variable.

²⁸ The highly significant Vuong statistic indicated that zero-inflated Poisson is preferred to regular Poisson models. Meanwhile, likelihood ratio tests suggested that negative binomial regressions were not preferable to Poisson regressions. However, the overall findings were not affected by the choice of estimation method.

²⁹ Since *Clarify* does not support time-series cross-sectional models, the graphs were created in Excel using the results from the statistical effects in Tables 2-5.

³⁰ The utility of the most promising additional region – East Asia – was undermined by the much smaller number of IMF members (eleven) and the even smaller number of programs (nine programs from 1990-2001).

³¹ The other independent variables were set at their means and the horizontal axis in the graph captures the 5th to the 95th percentile of the logged interest payment burden of the countries in the sample.

³² For example, for interest payments above 8% of GNP, one-standard deviation increase in overall debt size was associated with twice as high program initiation odds (significant at .05).

³³ For space reasons, the results presented in this section focus on those crisis and size indicators that are predicted to be particularly salient in a given episode (in line with the earlier theoretical discussion.) As one would expect, the statistical results using the economically and politically less salient aspects (reserves in Latin America and interest payments in Eastern Europe) produce similar (if at times statistically weaker) interaction effects. However, I would argue that weaker results for alternative crisis indicators do not undermine the overall empirical support for the systemic preferential treatment hypothesis, since this prediction is specifically concerned with crises that may affect international financial stability (i.e. salient crisis aspects.)

³⁴ For such a country, a one-standard deviation decrease in reserves (equivalent to 1.9 month of imports) was associated with a fourfold increase in the odds of a new IMF program (significant at .001).

³⁵ The effect of market size was positive and statistically significant (at .05 one-tailed) only for reserves below 1 month of imports but this was the case in almost 30% of cases.

³⁶ The effect was significant at .1 for interest payment levels above the 25th percentile and at .05 above the 50th percentile.

³⁷ For moderate-to-high reserves the effects of debt size were statistically significant (at .05 or even .01), while for the lowest reserves the effect was only half the size and at marginally significant (.1 one-tailed).

³⁸ Results were equally weak for alternative aid donors.

³⁹ Condition types vary significantly across programs especially across different time periods. Even for the same indicator (and assuming all relevant targets are made public) simple cross-national target comparisons would be problematic, since a given fiscal balance may be easily attainable for one country but virtually impossible for another.

⁴⁰ Since selection into IMF programs is non-random, I tested for selection bias but found no significant evidence with respect to loan size.

⁴¹ I obtained similar results with alternative measures like total imports and IMF quota (not reported).

⁴² Interaction effects were negligible between total debt and reserves/interest payments (results omitted.)

⁴³ In addition to bureaucratic quality, regime type, government orientation and inflation levels, the implementation models also control for inflation change (as a proxy of domestic policy progress) and year dummies to capture any temporal effects. These results were unaffected by the inclusion of additional domestic controls, such as government fragmentation, government seat share, and electoral cycles.

⁴⁴ Following Heckman (1979) I correct for selection bias by including the inverse Mills ratio obtained from the selection equation as an additional control variable in the main regression. The selection equations use two instruments: *IMF program history* and *neighborhood effects* (defined as the lagged average IMF program participation rate among a country's immediate neighbors). The latter variable captures the contagion effects inherent in waves of policy reform (Simmons and Elkins 2004), which may explain a government's decision to enter an IMF program but not necessarily its willingness (or ability) to follow through with implementation. Since diffusion effects were weaker for Latin America in the 1990s, for that episode I also used a dummy indicator capturing the Fund's looser budget constraints in the period immediately following a quota increase.

⁴⁵ Debt size was statistically significant at .05 one-tailed for interest payments above 8.8% of GNP (85th percentile) but the substantive effect was small because compliance was high regardless of country size.

⁴⁶ These results confirm Stone's (2002) finding that politically important countries were punished more frequently but for a shorter time during their interactions with the IMF.

⁴⁷ In a recent review, Steinwand and Stone (2008) emphasize such geopolitical interference as "one of the most robust findings" of the IMF literature.
