A BOTTOM-UP APPROACH TO INTERNATIONAL COOPERATION: ECONOCRATS’ ROLE IN COMPLIANCE WITH IMF AGREEMENTS

BY

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DISSEPTION

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Abstract

Modern international relations is a system of hierarchically-organized sovereign entities interacting with each other in the absence of hierarchical structures between them. Building on this observation, Realists and -to some degree- Neoliberal institutionalists emphasize the central role of nation-states as unitary actors in international relations theory. They argue that the anarchic nature of the system forces sovereign states to act alike, and therefore domestic institutions have no relevance for the question of how states conduct their foreign policies. This logic has been brought under scrutiny by scholars who seek more nuanced explanations for variation in states’ responses to similar external shocks, their propensity to fight or cooperate, and their strategies in international negotiations.

One particular research question that would benefit from relaxing the unitary actor assumption involves the effects of intervention in domestic politics by international institutions. Bearing few tangible means to influence domestic politics at their disposal, international institutions might facilitate cooperation by using economic assistance or membership as rewards for certain countries. Others, for pragmatic reasons, might take an indirect path towards change in state behavior. These institutions recognize that implementation of an agreement does not necessarily follow a top-down pattern. Instead, various domestic actors get involved in different stages of cooperation alongside the executive who sits at the international negotiation table. As demonstrated by the international cooperation literature, it is possible for international institutions to find allies in domestic non-governmental organizations (NGOs) and interest groups that would oversee the implementation of agree-
ments.

Building on this literature, this dissertation focuses on another important domestic actor whose role in international cooperation has long been ignored. Bureaucrats are central to the analysis of how exactly domestic politics matters because not only do they participate in every stage of the cooperation process, but they also serve as catalysts that provide communication between the international and domestic levels. Intuitive thinking suggests that international institutions which possess a closely-knit network with top-level bureaucrats in charge of negotiation and implementation stages in member states would seldom run into any problems of non-compliance. Put simply, some institutions might have an advantage in using the back door into domestic politics, and presumably they might be more successful in guaranteeing full implementation of agreements.

The case of International Monetary Fund (IMF), however, presents an interesting puzzle. IMF is one of those international institutions that enjoy regular dialogue with bureaucrats employed in relevant domestic institutions of borrowing states like the finance ministry, central bank, treasury and banking regulation agencies. These are the experts who negotiate conditionality agreements with the IMF and later implement the terms of these agreements, hence compliance lies largely in their hands. In addition to sharing a common understanding about sound macroeconomic policies with their international counterparts, they also often come from similar educational backgrounds and walk similar career paths. Then, the question is: Given that the world’s economy bureaucrats constitute the IMF, and that any conditionality package is freely negotiated, why would these domestic actors ever fail to comply with the provisions of the conditionality agreements?

This dissertation presents a novel way to study the role of domestic politics in international relations. Instead of focusing on the confining effects of certain actors (i.e. domestic veto institutions), it follows a bottom-up approach by theorizing the conditions under which bureaucratic networks help international institutions in their efforts to guarantee compliance
and achieve their goals. I use a family of formal models to analyze the effects of delegation on the implementation of the IMF agreements. Implications of these models point out three important factors that affect variation in compliance: bureaucratic ambition, socialization with international counterparts, and institutional autonomy.

Hypotheses generated from this theoretical section are evaluated using both quantitative and qualitative tools. An empirical analysis of 279 IMF programs suggests that there is positive and significant correlation between having conservative economy bureaucrats in office and high implementation levels. Findings also hint these bureaucrats’ success in convincing IMF officials for waivers and lower conditionality. When we turn to case studies, it becomes evident that positioning themselves as “mediators” and using the same language as the Fund officials, conservative economy bureaucrats or econocrats are able to broker an agreement that will be implemented fully. On the other hand, bureaucrats without relevant skills, ambition or social networks do have a hard time communicating the conditions of their country and end up with partial implementation. This link between the policy preferences of the implementer and the implementation level explains why IMF demands its clients to increase bureaucratic capacity and autonomy.

Decentralization and empowerment of bureaucracy might provide advantages to the Fund but, that said, this influence is not without its drawbacks. IMF’s efforts to form an alliance with domestic bureaucracies might backfire and exacerbate domestic conflicts in already unstable borrowing countries. Examples in this study show that during program implementation public discords between office-seeking politicians and conservative econocrats occur frequently, followed by resignations and dismissals.

More generally speaking, this study suggests that the seemingly less controversial strategies of intervention used by international institutions do not generate uniform results in all sovereign nation-states. Success or failure of “outside-in” influence on economic policy-making varies with certain aspects of domestic politics, especially of bureaucratic agencies.
This dissertation leads to a better understanding of the inner mechanisms of implementation, which in turn contributes to the construction of a more realistic and complete account of international cooperation.
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Chapter 1

Introduction

1.1 The Puzzle

“...I have been a bureaucrat all my life, if you see a bureaucrat as somebody who
would devote his life to the service of the common good in national and interna-
tional institutions. So, I will not apologize at all for being a bureaucrat. I will
also tell of my pride to be here at the head of the most magnificent bureaucracy
in the world. If you find one which serves the common good better, please tell
me. We will try to follow its example.”

Michel Camdessus¹
Former Managing Director of the IMF

Michel Camdessus’s above statement, with its defensive undertone, reveals two re-
lated and similarly neglected aspects of international relations: international organizations
(IOS) are actually bureaucratic bodies and, when communicating with states, their coun-
terparts are also bureaucrats.² At both the national and international levels, bureaucrats
prepare country reports, make policy decisions, take part in negotiations with state and
non-state actors, including politicians and other bureaucrats, help implement international
agreements, and monitor compliance with the terms of these agreements. Yet, due to both

²Some of the recent studies in IR literature treat international organizations as bureaucracies. See Barnett
cognitive and theoretical reasons, they are mostly ignored by scholars. ‘Bureaucracy,’ as Camdessus’s statement suggests, carries with it negative connotations, such as “red tape” and lack of creative thinking.

In studies of domestic politics, bureaucrats are treated as agents of political will who are beyond electoral accountability and, hence, those most in need of checks to their power (Gormley 1989, McCubbins, Noll & Weingast 1987, McCubbins & Schwartz 1984). Though limited in its contemporary concerns, literature on bureaucratic agencies forms a significant part of the American and Comparative Politics subfields whereas dominant state-centric theories of International Relations instead regard bureaucrats as analytically irrelevant. More specifically, senior officials of IOs who follow the provisions of agreements are not considered significant actors because the parties to the agreements are governments of sovereign states. International bureaucrats, then, do not represent parties thought to be capable of substantially affecting the outcomes of an agreement in a way unforeseen by the member states (Grieco 1988, Jervis 1999, Mearsheimer 1994). As for domestic bureaucrats, their input has little or no direct consequence on foreign policy because domestic differences between countries do not affect their position within the international system. Furthermore, as political appointees, they are considered to be under the requisite political control.

Though the role of bureaucrats is often misjudged or completely dismissed by political scientists, there are those working within international institutions who recognize their functions and consider bureaucrats as potential allies. The International Monetary Fund (hereafter “Fund” or “IMF”) is one example of these institutions whose area of responsibility intersects with those of top-level bureaucrats in member countries.

The Fund oversees implementation of long-term financial agreements, which require a vast array of economic reforms in each respective borrowing country. Inevitably, most of these

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3 For example, see Downs (1967), Ferejohn and Shipan (1990), Knott and Hammond (1996), Carpenter (2001), Huber and Shipan (2002).

4 See Waltz (1979), for a counterargument see Allison (1971) and Barnett et al. (2004)
reforms involve econocrats in finance ministries, treasury departments, central banks, and banking regulation agencies.\textsuperscript{5} These offices are usually occupied by experts who participate in negotiations with the Fund and later take part in implementing the agreed terms. On the other hand, these bureaucrats also participate in the highest decision-making body of the IMF, namely its Board of Governors. The Board meets annually and votes on critical issues, such as approving quota increases, special drawing rights (SDR) allocations, admittance and removal of members, and amendments to the Articles of Agreement.

This dual role of econocrats is depicted in Figure 1.1. Ministers of finance and central bank governors are those who sit at both the domestic and international tables. While these econocrats are directly connected to the decision-making body of the Fund, econocrats from the Treasury, Banking Regulation and Planning agencies also engage with Fund officials, albeit indirectly, through their roles in negotiations and implementation.

IMF officials have regular dialogue with their domestic counterparts responsible for compliance with the structural adjustment programs. The IMF is expected to ensure full compliance due to the workings of this indirect mechanism, which is comprised of networks of top-level economy bureaucrats with dual roles in domestic and international politics. However, chronic non-compliance remains an issue to be addressed by the Fund.

The case of Romania further illustrates this predicament. In 1998, Prime Minister Victor Ciarbea’s coalition government continued missing program targets set by the IMF. Ciarbea’s first reaction was to blame the bureaucracy for poor implementation of the IMF’s

\textsuperscript{5}Whereas Susan Strange (1996) and Bessma Momani (2005) employ the term “econocrat” to refer to IMF staff, Woods (2006a, 10) adopts “interlocutor” to refer to government officials who are “willing and able to embrace the priorities preferred by [the IMF and World Bank]”. However, “interlocutor” implies active participation in dialogues with international institutions rather than demarcating interests, policy preferences, and support of a particular platform or government. In this study, different from Strange and Momani, I employ the term “econocrat” for top-level economy bureaucrats in domestic politics. I choose this term over Woods’ “interlocutor” in order to emphasize these actors’ shared knowledge of economics, their level of expertise, and the technicality of their field which sets them apart from other public servants. I will use the terms “IMF bureaucracy,” “IMF staff,” or “IMF officials,” interchangeably, to refer to the international counterparts of the econocrats under discussion.
program. Later, under pressure from soaring inflation and awaiting economic reforms, he appointed *non-partisan technocrats* to top jobs (i.e. Finance Minister Daniel Daianu) and established a new ministry for privatization (*Beached*. 1998). Such a situation begs the question: why did Romanian econocrats, who participated in negotiations and who had prepared the stand-by agreement with the Fund, fail to comply with the conditions of the agreement? If these were agents of the political and public will, why were the new appointees expected to outperform those who had initially signed the agreement and undertake its implementation? More precisely, under what conditions do econocrats and their interactions with international bureaucracy affect the likelihood of compliance?

This dissertation is motivated by two related questions. The first will consider why econocrats may fail to generate policies complying with the conditions of IMF-sponsored agreements, despite their roles in preparing and negotiating these agreements. Secondly, why do some international institutions regard indirect mechanisms of intervention, such as establishing alliances with domestic actors, as viable and secure options to guarantee compliance? Such strategies, however, can lead to additional complications by fostering rivalry among various governmental bodies and actors, especially politicians and bureaucrats.
These two issues echo broader questions found within the literature on international cooperation. The first contributes to recent studies investigating the effects of domestic politics on international relations by relaxing the unitary actor assumption. Thus far the focus has been limited to domestic actors, such as NGOs and interest groups, but not the bureaucracy itself. This thesis asks how internal mechanisms of bureaucracy contribute to the likelihood of cooperation. It goes farther than adding bureaucracy into the equation as one of the relevant institutions by focusing on the interests, policy preferences, and discretionary power of the bureaucrats. Bureaucrats with interests and ideologies similar to those of international organizations may influence international cooperation more effectively. Hence, relaxing the unitary actor assumption is not enough; it also matters who the new actors are.

The second piece of the puzzle falls within the realm of international intervention. Unlike the hierarchically-organized structure of domestic politics, the international system appears to be in a state of anarchy, with nation-states interacting with each other directly without oversight from an administrative body with the power to enforce contracts. In such an environment, international organizations possess but a handful of means with which to influence state behavior and enforce treaties. These methods may include rewards and sanctions for the cooperating and non-cooperating parties, respectively, as well as indirect mechanisms that enable international organizations to avoid direct confrontation with governments by delegating tasks to domestic actors (Dai 2002). The second puzzle also examines the conditions under which such indirect methods of intervention will have the intended outcome or will backfire and lead to conflicts of interests between domestic actors. Findings in this thesis show that if international organizations act as informal principals to domestic agents and ignore the politicians’ positions or the social dynamics, they then risk causing a domestic clash of interests. International institutions, which follow an indirect path to ensuring compliance, may have to take into account the negative public reactions to the

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implementation of the international agreement.

The analysis for this study is concerned primarily with the overlapping space of domestic and international politics. Whereas earlier studies investigate variables such as executives, political parties, legislatures, and veto actors, this study instead focuses on the domestic heterogeneity of interests between econocrats and politicians. Moreover, previous works use domestic politics to narrate the negotiation and signing of agreements, but are unable to account for the variation in implementation levels. I, therefore, turn to the following research question: how do the identity and preferences of the implementer, the econocrat, including her interactions with the Fund and her own government, influence compliance with international financial agreements?

1.2 The Argument

At first glance, an IMF conditionality agreement (an exchange of policy reform for financial assistance) appears to be an undoubtedly beneficial situation. In exchange for the provision of much-needed loans, the Fund requires clients to implement certain policy conditions, such as economic and structural reforms aimed at addressing the sources of economic problems. In practice, however, the Fund has a severe problem with non-compliance to its policies. Non-compliance is characterized by at least one of the following three situations: 1) major or minor interruptions resulting from incomplete tasks and the accompanying delay in reviews; 2) irreversible interruptions, such as program cancellations due to policy slippages; and, 3) partial implementation of the agreed-upon reforms (e.g. establishment of an institution, but without all the required policy measures). Empirical studies show that the rate of non-compliance for IMF programs is at approximately 40 percent (Ivanova 2003).

\footnote{For example, see Evans et al. (1993), Lohmann (1993), Pahre (1997), Martin (2000).}
If the gap between the prescription and actual policies grows beyond tolerable limits, the program may become unsustainable and the Fund may suspend it. To avoid program suspension, IMF loan recipients demand waivers to delay economic reforms. The Fund may accept or reject such requests. In the latter case, the IMF proceeds with the decision of program suspension, which sends a bad signal to international markets. In the meantime, the poor performance of a single country may affect the ability of others to access loans due to the prolongation of the IMF-sponsored programs.

To explain why such disruptions occur in mutually approved programs, this study begins with the claim that loan arrangements are negotiated and implemented by bureaucratic agencies. Similar to other policymakers, econocrats in these agencies rely on their own beliefs and interests to evaluate and decide upon macroeconomic policies. Their decisions are accompanied by those of politicians. These two groups, bureaucrats and politicians, may either share common interests or disagree on which policies are more desirable for the public good. Without IMF intervention, a potential conflict remains a purely domestic matter.

This claim is distinct from a more traditional view, which fixes bureaucrats as negotiators and politicians as ratifiers. However, recent studies demonstrate that such clearly defined roles have not always existed (Alesina & Tabellini 2007), especially when treaties do not require ratification as in the case of IMF agreements. In these cases, decision-making power is concomitant with the level of technical expertise and information advantage.8

Once a stand-by agreement is signed, rivalry or alliance between econocrats and politicians may be a factor that affects compliance levels. Simply put, econocrats whose macroeconomic opinions overlap with the Fund’s may prefer the implementation process

8A good example of the role of econocrats in decision-making is the case of Turkish legislation regulating Public Finance and Debt Management (Law number 4749). This legislation, enacted in 2002, was prepared and lobbied for by the Treasury with support from the Fund. A detailed account of this example is in Chapter 5.
compared to those devoid of such “transnationalist” and “conservative” policy preferences. This interest-based explanation is nevertheless incomplete without considering the means by which econocrats pursue their interests. Without a sufficient level of delegation, however, they lack the means to do so.

Given that they enjoy institutional autonomy, some econocrats adopt more transnationalist traits through socialization and education. They are able to influence the implementation stage by manipulating the earlier bargaining stage. Others, who lack such traits, may ally with opportunistic politicians or become obstacles to reform-minded ones.

Figure 1.2: Causal Mechanism

I argue that the heterogeneity of interests between politicians (the executive) and key econocrats who negotiate and, to some extent, implement the conditionality agreements with the Fund can be one of the sources of variation in implementation levels. The institutional autonomy of econocrats or delegation to them can affect the potency of this causal

\[9\text{See for instance Gohlnmann and Vaubel (2007).}\]
1.2.1 Heterogeneity of Interests

IMF programs require fiscal and monetary discipline, which often entail unpopular policies, including simultaneous reductions in minimum wage and number of public servants, and tax increases. In order to earn the Fund’s loans and support, politicians must promise to carry out these measures. Yet, these policies often lead to short-term political costs with public benefits only achieved in the long run.\(^\text{10}\) Implementation of IMF conditions also depends on the approach of domestic actors to this cost-benefit imbalance.

Both politicians and bureaucrats derive their utility from two sources: holding office and implementing successful policy reforms (Müller 2007). However, they may differ according to the disparate weight each assigns to either maintaining office or implementing beneficial reforms. I argue that the difference may be due to the positions they hold or because of differences in educational and social backgrounds. Though these variances may not be the only reasons why bureaucrats and politicians may have divergent interests with regard to economic policies, I find them to be central to the difference between policy preferences of these two groups of actors.

To increase their chances for re-election and continued public support, politicians may focus more squarely on short-term gains while disregarding austerity measures, thereby deviating from IMF conditions. As expected, this tendency often increases in election years and decreases immediately after elections.\(^\text{11}\)

Beyond the obvious pursuit of electoral success, politicians may also attempt to

\(^{10}\)For example, it takes one to two years for monetary policies to take effect. See Göhlmann and Vaubel (2007).

\(^{11}\)Temporal effects of political business cycles have been analyzed and documented well in the context of speculative attacks. See Frieden 1999, Hays et al. 2003, and Leblang and Bernhard 2000.
manipulate macroeconomic policy in pursuit of political patronage. Luigi Manzetti (2003) argues that the recent financial crises in Mexico (1994), Indonesia (1997), Thailand (1997), Russia (1998), and Argentina (2001) have stemmed from similar political conditions, such as lack of transparency, clientelism, and lack of accountability. When the political institutions of borrowing countries lack accountability, politicians have the opportunity to use executive orders or emergency decrees to distort asset allocations.

Even if rent-seeking politicians are reluctant to extract gains from the redistribution of resources under an IMF-sponsored economic program, they may refrain from implementing reforms that would hinder their ability to utilize existing forms of patronage (e.g. downsizing the public sector). This relationship between accountability and achieving program targets is recognized by the Fund as “good governance.”

Econocrats, on the other hand, may care less about the short-term costs involved, depending on their institution. For instance, most central bank governors have office terms that do not coincide with electoral cycles. Even less independent econocrats, such as the Undersecretary of the Ministry of Finance or the head of the Treasury, often enjoy career alternatives (e.g. academic career and/or career in international institutions), which many politicians lack and that may surpass the rewards of being a bureaucrat. Therefore, it is logical to assume a different framework of incentives for econocrats.

While they care less about the short-term costs of IMF conditions, econocrats still value budget maximization and the economic welfare of society –even more so than politicians. A politician’s time in office may not reach the point at which improvements in public welfare can be observed and even when improvements can be pointed to, it is doubtful whether the electorate will attribute these improvements to the politician who originally implemented the program.\textsuperscript{12} On the other hand, transnationalist conservative econocrats

\textsuperscript{12}The 1999 economic program of Turkey exemplifies this effect. Even though the program was launched by a coalition government led by Bülent Ecevit’s Democratic Left Party (DSP) and remained in effect after Justice and Development Party (AKP) came to power in 2002, its contribution to economic strength has
benefit from these reforms simply because they believe in them.

Politicians may seek policy too, just as transnationalist conservative econocrats do. Some executives, for example, aim to eliminate the short-term costs of rigid economic plans by using the IMF as a scapegoat and tying their own hands before the opposition (Vreeland 2003). Yet, even the most reform-minded executives may have ideal points in policy space that deviate from those in the program. Politicians may prefer to implement recommended policies with varying speeds or means. Thus, having a policy-seeking politician in office does not necessarily guarantee his full support for implementation of the respective program.

Alternatively, the preferences of politicians can be operationalized by partisan differences on macroeconomic policies. Related to the interests they appear to represent, left-wing parties may care more about employment and income distribution. When in power, however, they may be less likely to implement IMF prescriptions or more likely to submit to demands to withhold particular reforms (Simmons 1994, Leblang & Bernhard 2000). On the other hand, right-wing governments may take on implementation more easily because they are less vulnerable to the electoral costs imposed by the most affected social classes: workers and state officials with fixed incomes. They also may be better positioned to endure pressure from business interests, especially from export-driven companies attempting to fine-tune exchange rate policies.

In short, for one reason or another, politicians may receive incentives to delay, change or altogether block the implementation of IMF-sponsored reforms. This by no means constitutes a sufficient condition for non-compliance because the task of implementation is often delegated to econocrats. The cooperation of econocrats is thus necessary to deviate from

13 Turgut Özal, former deputy prime minister, prime minister and president of Turkey, was known as a staunch supporter of neoliberal economic policies promoted by the Fund. He launched an economic reform program based on privatization, monetary and fiscal liberalization, and open trade relations in the 1980s. Even so, his policy preferences frequently diverged from those of the Fund on issues such as the degree of monetary expansion and the appropriate level of agricultural and trade subsidies (Hurriyet 1981).
program objectives. More significantly, for econocrats to give in to the pressure applied by politicians, their interests must align more squarely with those of the politicians rather than the Fund’s.

### 1.2.2 Bureaucratic Delegation

If bureaucrats are to be considered perfect agents of politicians, we expect to see non-compliance whenever the interests of politicians diverge from IMF-supported program objectives. The preceding discussion shows that such divergence is neither unanticipated nor unusual, given the incentives at stake for politicians. Then, it is unlikely to observe conflicts between top-level bureaucrats and government officials on implementation or public statements by econocrats criticizing government policies.

The principal-agent (PA) literature builds upon the problem of delegation under conditions of asymmetric information and divergent interests. PA theory investigates how to create an optimal contract that offers bureaucrats the “right” incentives to follow policy preferences of politicians. It concludes that bureaucrats will implement policies with leeway rather than act as perfect agents because of monitoring and policing costs.\(^\text{14}\)

Under certain conditions econocrats may use this “leeway” and align with the Fund as a means of resisting political pressure. At other times, bureaucrats will collude with their principals and –if they prefer– deviate from IMF conditions. Different from the PA perspective, bureaucratic discretion may be useful for the IMF and have the potential to improve the likelihood of compliance. Yet, which aspects of bureaucracy and domestic institutional structure explain this variation in behavior and level of compliance?

An econocrat is an expert responsible for implementing the program and is con-

sidered to represent a top-level bureaucrat in this study. This assumption leads to two implications: 1) all policies pertaining to one area of reform are assumed to be under the control of one institution; and, 2) the final decision on policies is assumed to be made by one bureaucrat. The second implication is generally valid because of the hierarchical structure of bureaucracy. On the other hand, the first assumption may not hold due to the complex nature of economic policy-making. Yet, models in this study already entail two players with conflicting interests and can be adjusted by simply switching titles (e.g. finance ministry vs. ministry of agriculture –supporting higher subsidies than the IMF recommends– instead of Chief Executive or Politician in Chapter 3).

Whereas politicians act with office- and policy-seeking interests, preference profiles of econocrats are determined by three variables: 1) the value they attach to budget maximization and the economic welfare of society; 2) their career ambitions; and, 3) their authority in decision-making vis-à-vis the politician’s. This difference translates into the claim that a transnationalist conservative econocrat prefers a higher level of compliance than would a politician. I argue that this gap in interests may lead to two outcomes: 1) higher implementation levels if the conservative econocrat is autonomous; or, 2) conflict between the political and bureaucratic cadres if autonomy is low.

To recap, econocrats are assumed to share politicians’ interest in budget maximization (i.e. IMF loans) and under some circumstances IMF’s interest in implementation of policy conditions. Whether or not econocrats adopt the Fund’s understanding of the ‘economic welfare of society’ depends on their policy preferences, as shaped by their educational and professional backgrounds, socialization with international bureaucracy, and future career ambitions.

For example, in the case of the Philippines (1984-88), the old cadre in the central bank was critical of the Fund’s policy recommendations on economic liberalization. This cohort’s opinions on economic welfare did not overlap with the Fund’s teachings, most probably due
to their lack of socialization. In order to adopt a faster pace, the IMF learned to bypass these cadres with the installation of a more “socialized” unit, the IMF-Central Bank Inter-Agency Committee.\textsuperscript{15}

1.3 Contribution to the Literature

This dissertation opens a new research agenda in international relations by bringing the implementation stage to the forefront. Conventional understandings in international relations depict cooperation as a linear process in which states take part as unitary actors. When domestic politics is included as part of research agendas, this consideration is usually confined to veto players or institutional properties, such as regime type. With regard to the stages of cooperation, much work has been concentrated on bargaining and ratification without due attention to implementation and the link between the implementation and \textit{re-negotiation} stages.

Figure 1.3: Linear Cooperation Process

Each of these studies utilizes a top-down explanation of (non- or partial) implementation. Once ratified, agreements are supposed to be implemented. Given that heads of states freely negotiate them and legislatures approve them, implementation is expected to proceed without complications. These studies ignore the actors in charge of the implementation and are only able to explain lapses in compliance with limited and non-strategic means: problems

\textsuperscript{15}Broad 1988, 61.
with monitoring and enforcement by international institutions, change in the preferences of executives, and capacity problems.

These theoretical explanations are unable to account for the 40 percent compliance failure properly when properties of IMF agreements are considered. First, non-compliance cannot simply be attributed to problems with rule enforcement because the IMF has one of the most advanced and centralized systems of monitoring and enforcement possible for an international institution. The Fund’s monitoring, for instance, begins even before an agreement is signed. IMF missions pay annual visits to all member states, whether or not they are currently borrowing. Once an agreement is signed, borrowing countries are required to implement reforms on a timely schedule in exchange for each installment of the IMF loan. With this monitoring of member states before and during programs, the IMF’s enforcement mechanism is more sophisticated than most international organizations.

By neglecting the borrowing country’s role in drafting agreements, the capacity argument also fails to explain the issue sufficiently. Countries are often aware of their own capacity problems and, at the very least, gain bargaining leverage by communicating these to the Fund. In addition, they turn to the IMF under dire economic conditions, and, for many (especially developing countries), poor bureaucratic capacity is part of the problem. In fact, the Fund sends technical assistance teams to borrowing countries to build up capacity. Therefore, though a common problem expected both by the client and the lender, low capacity represents an inadequate explanation of non-compliance.

This leaves us with the argument focusing on a change in preferences, which is useful under certain circumstances. For instance, pre-election years place an extra burden on the executives of borrowing countries. Knowing this, the IMF takes political business cycles into account and can even delay the signing of agreements until after elections are held. Even in these cases, the state of the world triggers a change in the priorities of the executive, though not a fundamental change in his preferences. In addition, due to the repetitiveness of
programs, most policymakers already know what to expect from an IMF agreement. Hence, an unforeseen shift in preferences cannot explain partial implementation on its own.

Although top-down explanations are simple and elegant, they are not geared towards the complex relationship between the IMF and its borrowers. Absent from the literature are the factors that shape the policy preferences of econocrats and thus affect implementation from the bottom-up. These factors, including the discretionary power of econocrats, career ambitions, and socialization with their international counterparts, determine their commitments. If econocrats get closer to the Fund’s ideal point to realize their career goals, strengthen their autonomy, or due to shared beliefs, they are more likely to implement the program. On the other hand, if there is no incentive for econocrats to align with the Fund, they are more likely to follow the preferences of politicians, which are usually disposed towards partial implementation.

The claim that econocrats have a key role in bargaining and implementation of IMF agreements turns compliance into a strategic game between the Fund, the executive, and the bureaucracy. Implementation becomes a choice and result of a domestic clash of interests rather than an automatic response to a ratified treaty.

This approach brings forward the interests and preferences of actors in domestic politics and links this “inside” factor to the “outside.”

This thesis also contributes to literature on the IMF. The Fund stands at the center of a growing literature that calls its effectiveness into question and, more broadly, investigates its “strong” institutional influence on domestic politics. Although this body of work provides a multitude of empirical results and implications, it has yet to culminate in a definitive set of findings.\(^\text{16}\) Except for a limited number of recent contributions, most IMF literature assesses program effectiveness by assuming full implementation of the prescribed Fund policies.\(^\text{17}\)

\(^{16}\)See Steinwand and Stone 2008 for a review of the literature. 
The perceived negative impacts are then directly attributed to the failure of the program rather than to the possibility that partial implementation negated any positive effects. This study shows that to tease out the exact policy effects of IMF programs, we should first take a step back and focus on the extent to which these programs are implemented.

This argument addresses important policy implications, such as the client selection strategy of the Fund, varying levels of program ownership, and consequences of IMF involvement in domestic politics of member states. The IMF selects based on some criteria of governance. These measures of selectivity include macroeconomic indicators and a display of political will or “program ownership.” My findings indicate that the Fund should also consider bureaucratic aspects, such as the autonomy of certain agencies and background of those working within the agencies. In recent years, the IMF began taking the issue of bureaucratic autonomy into consideration, even treating it as an informal condition of signing an agreement. This strategy, however, may backfire and threaten cooperation if more
powerful econocrats begin challenging politicians.

This study also seeks to turn Allison’s proposition in Essence of Decision (1971) into a generalizable theory. As one of his three models, the bureaucratic politics model analyzes the effects of bureaucrats’ preferences and positions on governmental action. However, Allison himself locates the problem within the model itself: generalizability. It is difficult to identify each and every personal aspect that leads to a certain bureaucratic preference, especially when considering a range of bureaucrats with different backgrounds. Therefore, this study limits its focus to econocrats and the common factors that may drive their preferences.

1.4 Structure of the Thesis

This thesis employs a multi-method approach and is divided into six chapters. Chapter 2 reviews and weaves together literatures in international relations and bureaucratic politics while delving deeper into the argument of this dissertation. In doing so, I use a qualitative data analysis software package, Nvivo, to organize and analyze the literatures on the IMF, bureaucratic politics, and international cooperation. I find that only a few studies in IMF literature focus on the implementation stage, and even fewer support a statistical model with case studies.

Chapter 3 introduces a family of formal models that teases out different aspects of the strategic relationship among the key actors. It derives hypotheses from the implications of these models and presents an analysis of them. The hypotheses point to two strategies that econocrats may use: 1) if they have institutional autonomy, econocrats may influence policy directly, and 2) if they lack institutional autonomy, econocrats may do so indirectly by using their advantage in technical knowledge against politicians.
Chapter 4 introduces an empirical analysis to illustrate the link between the preferences of econocrats and the compliance with IMF conditions by employing an original large-n dataset. Empirical tests show that countries with conservative econocrats in office are more likely to sign IMF agreements with more flexible conditionality, achieve higher implementation scores, and receive waivers to delay unimplemented conditions.

Chapter 5 illustrates the causal mechanism further by using a case study approach. I construct a typology based on two independent variables in Chapter 4 (institutional autonomy and the policy preferences of econocrats). Using this typology, I conduct an across-case analysis of Bolivia, Pakistan, Bulgaristan, and Zambia. Examples show that opportunistic politicians try to oust powerful econocrats or discredit them through public announcements. This chapter also uses a within-case analysis of Turkey based on interviews with 12 top-level Turkish bureaucrats. These interviews were conducted by the author with econocrats, both retired and presently employed at the Central Bank, the Treasury, and the Ministry of Finance. Excerpts from these interviews illustrate the relationships of econocrats with politicians and the IMF officials as well as their strategies to circumvent political pressure.

Finally, Chapter 6 concludes this thesis by classifying its findings within the broader international relations literature.
Chapter 2

Compliance with IMF Conditions and Domestic Politics

Understanding the role of economic bureaucracy in IMF agreements requires us to bridge various bodies of literature. To maintain the focus and relevancy of this section, I will concentrate on those that represent significant contributions in each and which relate to the argument put forward in this thesis. Three essential research agendas exist as foundations to this thesis: literature on the IMF, the larger international cooperation and compliance literatures, and the studies on delegation in domestic politics.

This thematic review will begin with a brief entry into the background of the IMF. An evidence-based, systematic approach reveals a significant gap in the international lending literature. Of 1195 peer-reviewed books and articles on the IMF, only 55 focus explicitly on the role of domestic politics and the implementation of loan agreements. Each of these studies was conducted over the last decade, implying a growing interest in the field. Yet, as categorization of the relevant studies will reveal, few consider the role of bureaucrats and even fewer use a multi-methodological approach, such as the one I am proposing.

Next, the empirical question of non-compliance with IMF conditions will be evaluated within the broader context of international cooperation. While significant contributions have been made to explain failures of compliance, actor-centric theories that account for the

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18 This approach is traditionally used in medical science and management. For examples, see Transfield et al. (2003), Macpherson and Holt (2007), Narayanan et al. (2008)
19 The total number of studies retrieved using the search string “IMF” or “International Monetary Fund” for all years is 7365. The search was conducted on Social Science Citation Index (SSCI) and restricted to published, peer-reviewed studies. Review protocols will be defined in detail in corresponding sections.
strategic environment are surprisingly limited. Existing explanations of compliance, or lack thereof, use either consequence or process-based approaches.

The consequence-based approach very simply attributes compliance with the existence of proper consequences and non-compliance with their absence. In other words, agreements or organizations with potent rewards can push countries to strive towards compliance. In the context of IMF lending, however, this explanation is weakened by its inability to account for the high level of non-compliance (approximately 40 percent) despite the strict conditions attached to loan agreements. The IMF itself recognizes the inefficacy of the conditionality concept and instead emphasizes “program ownership,” which refers to the shared interests of the lender and loanee. The disparity in these approaches, one assuming a conflict of interests and a requisite use of force while the other assumes cooperation through common interests, points to uncertainty. This uncertainty is evident both in defining the causes of non-compliance within the IMF apparatus, as well as in its resolution to ensure compliance.

A second strand of the compliance literature focuses on the cooperative process rather than the consequences of shirking of responsibilities. This school attributes failures of cooperation to unanticipated impediments, such as rule ambiguity or low levels of bureaucratic capacity. Although these issues may hinder the initial implementation of treaties, IMF agreements are often less susceptible to them due to the regularity of repeated economic programs and technical capacity-building mechanisms for econocrats.

Findings, as well as gaps in the IMF and international cooperation literatures, suggest a need for more attentive research on possible conflicts of interests in domestic politics with regard to economic policy. This need directs us to studies in comparative and American politics that investigate the issue of delegation.\textsuperscript{20} By extending relevant analyses within these

\textsuperscript{20}For examples, see Calvert and McCubbins (1989), Huber and Lupia (2001), Bendor et al. (2001), and Shipan (2004).
literatures into the context of international financial agreements, it is possible to distinguish certain bureaucratic aspects that contribute to the heterogeneity of interests in domestic politics. These aspects – bureaucratic ambition, socialization, and degree of bureaucratic autonomy – may function as determinants of how far apart econocrats’ policy preferences fall from those of politicians.

In short, this chapter takes a thematic approach to discuss relevant sections of three literatures – on the IMF, international cooperation and bureaucratic politics – pertaining to the core thesis of this dissertation that domestic bureaucracy plays significant role on compliance with international agreements. In this way, it excavates the accumulated scholarly knowledge to extrapolate the sources of econocrats’ policy preferences, how they might influence the outcome of IMF agreements, and, more generally, the prospects for international cooperation.

2.1 IMF-Supported Programs and the Question of Implementation

A large contingent of the IMF literature is dedicated to the perceived effects of IMF agreements, as a way of gauging their success. Among the many independent variables, however, researchers could not identify one set that would invariably predict the effects of IMF programs. Moreover, sufficient study of the implementation stage is noticeably absent among this literature.21 Without first determining if the program is implemented properly, it is near impossible to attribute failure or success to any sets of variables.

In this section, I will first summarize the institutional background of the Fund, and

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21 Only 18 of 55 articles in the review focus directly on the implementation stage.
the process of borrowing. What follows is a systematic review of the IMF literature and the findings of this literature on the sources of non-compliance. This evidence-based approach reveals that it is only recently that scholars have begun to consider borrowing countries as non-unitary actors and focus on domestic sources of non-compliance.

2.1.1 Background

The International Monetary Fund was established as one of the Bretton Woods institutions to facilitate development by providing monetary stability. In the 1970s, however, the Fund’s authority expanded, and it became much more than a lender for temporary balance-of-payments problems. Instead, it grew to an agency overseeing crisis management and supervising structural reforms, mostly in developing countries (Spero & Hart 2003). This change in both its functions and its mandate is the result of shifts in global markets. It is also the origin of non-compliance.

Building on the lessons of the interwar period, John Maynard Keynes and Harry White, founders of the Bretton Woods institutions, intended the Fund to become a solution for balance-of-payments problems. A balance-of-payments problem or current account deficit typically arises from a sudden decline in exports, or policies that increase inflation and increase demand for imports (Mikesell 2000, 407). In an attempt to restore economic balance, countries with current account deficits may respond by imposing import control and devaluing their currency, resulting in a period of depression. By providing short-term loans, the IMF offers a less costly alternative to this option. Borrowing countries are able to maintain the import of goods and services while implementing strict monetary and fiscal policies to reduce deficits under IMF supervision. With the application of such a policy structure, the primary objective of the Fund was to preserve international monetary stability.
This rather narrow area of responsibility—centered on exchange rate stability and convertibility—has changed drastically with the worldwide shift from fixed to floating exchange rates in 1973 (Pauly 1999, Lastra 2000, Simmons 2000b). The new global economic system gave the IMF a much larger role with mandate over financial issues including, “payments systems, banking and capital markets, and financial reform” (Lastra 2000, 514). Beginning in the 1970s, the Fund’s mandate has continued to expand to become a “lender of last resort” and even an agency of poverty reduction and development. According to IMF documents, this expansion was simply a result of the Fund’s adaptation to the ever-changing economic needs of member countries and the global economic system.22

As the Fund has assumed more responsibilities, the variety of programs offered and the conditions attached to them have also increased. Instead of the relatively simple tasks of the par value system (i.e. using a single unified exchange rate system and keeping current accounts free from restrictions), member countries now face complex program requirements, including structural reforms. Structural conditionality calls for improvements in financial and monetary institutions, as well as legal reforms in areas such as property rights and foreign direct investment (IEO 2005).

The Fund created both non-concessional and concessional financial facilities with varying levels of structural conditions, mostly in order to respond to a new group of clients (Boughton 2001). As more developing countries began to knock on the Fund’s door in the 1980s, programs with longer repayment periods and deeper structural conditions, such as the Enhanced Structural Adjustment Facility (ESAF) and the Poverty Reduction and Growth Facility (PRGF) were launched.23

These changes in the scope of IMF responsibilities and program conditions shed light on two aspects of the Fund’s mentality. First, the Fund’s expansionary behavior is a response

22For example, see Good Governance: The IMF’s Role (1997).
23The PRGF replaced the ESAF in November 1999.
(or justified as a response) to changes in the needs of members and to the international economic environment. By demonstrating such adaptability, the Fund does not then seem to be in a state of complete stasis, contrary to some arguments (Joseph 2000). Second, Fund officials explain this expansion in terms of the limited capacity of a program based exclusively on macroeconomic measures as opposed to one that complements traditional, quantitative targets with non-macroeconomic conditions. It is often argued that low-income countries suffer from economic crises due mostly to institutional problems of a non-macroeconomic nature (IEO 2005). Hence, to achieve a lasting solution, the IMF regards structural conditions as essential, so long as they contribute to growth, poverty reduction, and integration with global markets.

This is often the point at which politicians find themselves in a predicament: to weigh the short-term gains against the long-term costs, to consider the repercussions of institutional reforms with redistributive effects on society, and to decide on the implementation of the agreement. To understand the gravity of this dilemma, one needs to scrutinize the very process of borrowing itself.

**Program Initiation**

In times of economic crisis, the Fund’s involvement is only possible after the client state’s invitation and consent. Some claim that this involvement is somehow imposed on borrowers because the IMF holds a “seal of approval” that signals the economic security of these countries to private donors (Bird 1996). Similarly, an invitation may become compulsory due to the urgency of the foreign exchange needed (Haggard & Kaufman 1992). Still others argue that “governments sign IMF agreements because they want conditions imposed to push through unpopular economic policies” (Putnam 1988, Stein 1992, Vreeland 2003, 13). This logic offers one explanation for why countries with sufficient foreign exchange reserves
enter into IMF agreements.²⁴ Accordingly, reform-minded executives bind themselves with the commitment they make to the Fund. The assumption is that breaking this commitment in front of an international audience would be difficult for most veto players in borrower countries.

Regardless of the reasoning behind the member country’s request, a generic procedure of program initiation is followed. Both parties go through a phase of internal preparation. Econocrats of the client state decide on the main bargaining points such as loan size, repayment schedule, and acceptable conditions. In their decisions, econocrats may take into account various concerns, including previously formed expectations about what is acceptable to the IMF, the minimum bargaining position to guarantee public support, as well as their own beliefs on national economic growth. On the other side, the IMF Managing Director approves the briefing paper prepared by the area department staff and sends a mission team to the client country for negotiations (Dash 1999).

Negotiations take place in a series of confidential discussions with econocrats from the finance ministry, central bank, and other relevant agencies. Following these discussions, econocrats prepare a letter of intent that summarizes the program basics and reflects their perception of the win-set. Next, the IMF Managing Director sends this letter to the Executive Board for approval.

At the negotiation stage, politicians are focused more on the inflow of funding rather than the conditions attached to the agreement. In addition, the economic technicality of treaty language makes it more accessible for econocrats and less so for politicians. Despite observing potential issues of conflict, domestic actors may still give their approval to show “program ownership” to the Fund officials. As a result, the negotiation stage does not overcome the differences in domestic policy preferences, but merely postpones conflict until

²⁴For example, Brazil’s agreement with IMF in 1998 despite its strong foreign exchange reserves ($ 43 billion) compared to other borrowers of the Fund (Vreeland 1999, 1-3).
the implementation stage.

Negotiations for an IMF arrangement are characterized by their secretive structure and asymmetric bargaining practices. First, their secretive structure obfuscates the extent to which the final agreement is a document of tasks prepared by econocrats or one dictated by IMF officials. Secondly, bargaining is usually described as asymmetric due to the bleak economic conditions in borrowing countries and the IMF’s sought after seal of approval (Kahler 1993).

Together, these characteristics lend a certain validity to the claim that the IMF uses its asymmetrically higher bargaining position to impose unrealistic program targets on its clients. Though the IMF enjoys a relatively strong position at the start of negotiations, assuming the stability of this position throughout the process neglects the nature of these negotiations (Mertha & Pahre 2005). Bargaining with the Fund is by no means a one-shot game. Kahler (1993, 364) points out that the Fund deliberately paints the picture as such in order to deter defection. In fact, IMF negotiations are conducted in an iterative manner with waivers, renegotiations, and interruptions as integral parts of the process. Iteration plays to the hand of the borrowing countries, the seemingly weak party at first glance (Mertha & Pahre 2005). Once the letter of intent is approved by the Executive Board, the Fund loses most of its bargaining advantage as it is interested primarily in repayment and the success of the stand-by program.

This is exactly why the Fund seeks allies in domestic politics or calls for “program ownership.” Econocrats, with preferences similar to those of the Fund, may prove useful and can inform their international counterparts of capacity problems, and the practicalities of and possibilities for implementation. Econocrats may also be able to provide insights into problems with politicians and even convince politicians to limit the severity of conditions. For such a network to function, econocrats do not only have to share common policy interests with IMF officials, but also gain their trust. This is only possible with certain common
interests and through the repetitive nature of IMF negotiations.

## Conditions and Implementation

IMF-sponsored programs are composed of two components: the loan determined partly by a member country’s quota (i.e., its contribution to the Fund depository) and the attached conditions. Although these two components are present in every program, the content and rigidity of the attached conditions vary considerably. This variation is translated into the tailoring of several loan instruments or arrangements (IMF 2006). The arrangements with non-concessional interest rates include the Stand-by Arrangement (SBA), Extended Fund Facility (EFF), and Supplemental Reserve Facility (SRF). Among these, SBAs constitute the most common form of IMF programs—typically 12-24 months in duration and with a repayment period of 2-4 years. On the other end of the spectrum stands the Poverty Reduction and Growth Facility (PRGF) for which the Fund offers a low interest rate (0.5 percent) and expects loans to be repaid in 5-10 years.\(^{25}\)

Regardless of the specifics of its category, an arrangement functions through mutual assurances under the principle of conditionality. In practice, part of the loan is paid out immediately, and the rest is released in tranches, conditional on observance of implementation (Dreher 2003). According to the IMF Articles of Agreement, conditionality attached to Fund-sponsored arrangements plays a dual role: 1) the borrower government is assured that it will continue receiving IMF financing, if specified conditions are met; 2) in return, the government ensures the timely repayment of loans by undertaking the reforms recommended by the Fund (Ivanova, Mayer, Mourmouras & Anayiotos 2003, IEO 2005). Hence, conditionality enables

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\(^{25}\)The Fund revised its lending facilities recently starting from 2009. The new non-concessional facilities added to SBA and EFF include the Flexible Credit Line (FCL), the Precautionary and Liquidity Line (PLL), the Rapid Financing Instrument (RFI), and the Trade Integration Mechanism. In 2010, PRGF was replaced by the Extended Credit Facility (ECF). This new categorization of lending arrangements and its effects comprises a subject for future research as this project focuses on the pre-2008 era.
the Fund to allocate resources between international lenders and borrowers efficiently.

Theoretically, conditions attached to IMF loans are designed to ensure program success and prevent waste of financial assistance. In essence, they reflect the perspective of Fund officials on the underlying roots of economic problems in member countries, and the organization’s broader ideology on the global economic system. Even though the IMF has recently taken steps to revise its conditionality guidelines and emphasize country-specific solutions (IMF 2002a), recipient countries are still left with only a generic prescription. On the program list are policies that address the immediate balance-of-payments problem, as well as structural obstacles to sustainable growth: price and trade liberalization, devaluation, monetary and fiscal restraints, institutional reforms (or “improvements in governance”), and measures to contain inflation and public debt (IMF 2004, 23).

When it comes to the implementation of these policies, the IMF’s counterparts in recipient countries are predetermined by Article V, Section 1. Accordingly, each member may communicate with the Fund only through its treasury, central bank, stabilization fund, or other similar fiscal agency. The Fund is restricted in the same way. In other words, from the initiation of a loan arrangement to its implementation, econocrats in the above-mentioned agencies are the ones who deal with IMF mission teams and country representatives. Econocrats, then, serve as mediators between politicians and the IMF, and it is their responsibility to inform each of the others’ position, draft measures in the acceptability-sets of both the Fund and their government, and carry out appropriate macroeconomic policies (Bakır 2007).

The Fund oversees compliance with the program targets through various mechanisms: 1) prior actions that countries agree to accomplish before the Board’s approval of the loan (e.g. devaluation or elimination of price controls); 2) performance criteria which include quantitative (e.g. targets set for international reserves, monetary and credit aggregates, fiscal balance, and external borrowing) and structural components (e.g. reform in energy
or social security systems); 3) structural benchmarks that assess individual reforms; and 4) program reviews held by the Executive Board.

With such extensive monitoring mechanisms in place, what constitutes non-compliance? According to some accounts, non-compliance is a widespread issue for IMF-supported programs. Empirical studies show that approximately half of the programs are implemented as planned. Ivanova, for instance, finds that 44 percent of all programs approved between 1992 and 1998 were not completed, while 70 percent experienced a major or minor interruption (Ivanova 2003, 10). A more comprehensive study of 347 programs between 1979 and 1997 conducted by Edwards (2001) reports similar results (60% completion rate). However, as expected, compliance levels vary with the specific category in question. The Fund’s own database on Monitoring Fund Arrangements (MONA) shows this variation: of all programs during 1987-1999 57% of structural benchmarks, 67% of performance criteria, and 80% of prior actions have been implemented (IMF 2001).

To determine the level of implementation, most of these studies use data from IMF records. Because these documents track both agreed-upon program conditions and the steps taken by recipient countries, non-compliance surfaces as any deficit between the two.26

As mentioned before, three factors contributing to non-compliance include: 1) major or minor interruptions in the program that occur when reviews are delayed due to incomplete tasks; 2) irreversible interruptions, including program cancellations due to policy slippages; and 3) partial implementation of the agreed-upon reforms.

2.1.2 A Systematic Review of the Evidence

The previous section illustrates the process and mechanisms of international finan-

26Earliest examples of this sort are Beveridge and Kelly (1980) and Haggard (1985).
cial cooperation, which render the IMF as one of the strongest organizations in the international arena. Considering its monitoring and enforcement capabilities together with non-compliance rates, the Fund presents an interesting case for the larger cooperation literature. To provide a clear picture of how this case has been studied, I use a systematic review approach.

Following Transfield et al. (2003), Macpherson and Holt (2007), and Narayanan et al. (2008), this systematic review comprises two main parts. First, I define the review protocols and map the field based on an evaluation of the quality and relevance of research retrieved in relation to IMF as an object of study. Second, taking such readings into consideration, I present my findings to elucidate the theoretical and methodological gaps in the field.

**Selection and Retrieval Protocols**

Building on the definitions and works previously mentioned, I identified and extracted basic keywords that strike a balance between the narrower literature of non-compliance and the rather broad field of IMF lending. This review covered the peer-reviewed, academic articles published between 1980-2010 and found in the SSCI database. This database was chosen because of its focus on social sciences and the large number of returns using main keywords such as IMF, condition*, bureaucra*, implement*, and compli*. Results from each interrogation together with search date and criteria are reported in Tables 2.1 and 2.2. For retrievals with more than 250 results, exclusion criteria were used to refine the search. These criteria are reported in Appendix A.

Figure 2.1 and Table 2.1 depict a general picture of the IMF literature. According to Figure 2.1, scholarly interest in the IMF has risen over the last two decades. This change

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27 The year 1980 might be considered as a point of structural break in IMF studies due to the changing role of the Fund after the Oil Crises.
can be attributed to the changing functions of the Fund, as well as the growing credit needs of the new liberal economies of Central and Eastern Europe. As we shall see, however, only a small portion of academic interest is directed at studying the implementation of IMF agreements.

In Table 2.1, results of the SSCI interrogation using the search string IMF (or International Monetary Fund) are reported. The initial number of entries is 7365. Once the query is limited to Social Sciences, excluding categories of Science and Technology (5982 entries) and Arts and Humanities (53 entries), the number of relevant articles was reduced quite significantly to 1678. More than half of these studies are categorized as Business and Economics as seen on Table 2.2.\textsuperscript{28} The number of entries listed under International Relations remains at 290.

<table>
<thead>
<tr>
<th>Search string</th>
<th>Scope</th>
<th>Date of search</th>
<th>Date range</th>
<th>Number of entries</th>
<th>Number of relevant</th>
<th>Total relevant</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMF</td>
<td>Title and topic</td>
<td>1/15/2011</td>
<td>1980–2010</td>
<td>7365</td>
<td>1678</td>
<td>1678</td>
</tr>
</tbody>
</table>

\textsuperscript{28}Some articles are categorized under two categories.
Table 2.2: Categorization by Subject Area

<table>
<thead>
<tr>
<th>Subject areas</th>
<th>Number of entries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business &amp; Economics</td>
<td>1025</td>
</tr>
<tr>
<td>Public Administration</td>
<td>562</td>
</tr>
<tr>
<td>Government &amp; Law</td>
<td>366</td>
</tr>
<tr>
<td>International Relations</td>
<td>290</td>
</tr>
<tr>
<td>Social Sciences (other)</td>
<td>125</td>
</tr>
</tbody>
</table>

The next stage shows the elimination criteria and the number of relevant articles after every elimination. Out of 1678 studies, 350 were documents other than articles and books. Another 85 entries were published in languages other than English and thus less accessible for the purposes of this review. Duplicate studies and studies with anonymous authors were also removed. This brought the number of total studies on IMF to 1195.

Table 2.3: Elimination Criteria

<table>
<thead>
<tr>
<th>Elimination criteria</th>
<th>Excluded documents</th>
<th>Total relevant documents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Document type</td>
<td>350</td>
<td>1328</td>
</tr>
<tr>
<td>Language</td>
<td>85</td>
<td>1243</td>
</tr>
<tr>
<td>Duplicates</td>
<td>5</td>
<td>1238</td>
</tr>
<tr>
<td>Anonymous authors</td>
<td>43</td>
<td>1195</td>
</tr>
</tbody>
</table>

Table 2.4 is a breakdown of the literature by outlet. Most of these journals focus on economics, development and area studies. Only a few, such as the Review of International Political Economy and International Studies Quarterly, are political science journals.

Table 2.5 reports the search protocol for SSCI using several keywords. Our initial search returned a total of 2296 potentially relevant studies. Using Endnote X3, a referencing database, duplicate studies, book reviews, studies with anonymous authors, and studies in languages other than English were removed.\textsuperscript{29} At this stage, the total number of relevant articles came down to 921, as listed in Table 2.6. This list of studies was further reviewed against the inclusion and exclusion criteria using iterative keyword searches and title analysis.

\textsuperscript{29}Studies in other languages constitute a minuscule portion of the literature, and even though they are no less valuable as academic contributions, they are less accessible for academia in general. Hence, their impact is far more limited compared to works in English.
Table 2.4: The Literature Categorized by Outlet

<table>
<thead>
<tr>
<th>Source Title</th>
<th>Record Count</th>
<th>% of 1195</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMF Staff Papers</td>
<td>59</td>
<td>4.7466%</td>
</tr>
<tr>
<td>World Development</td>
<td>54</td>
<td>4.3443%</td>
</tr>
<tr>
<td>Economic and Political Weekly</td>
<td>47</td>
<td>3.7812%</td>
</tr>
<tr>
<td>World Economy</td>
<td>27</td>
<td>2.1722%</td>
</tr>
<tr>
<td>Journal of Development Economics</td>
<td>21</td>
<td>1.6895%</td>
</tr>
<tr>
<td>Third World Quarterly</td>
<td>19</td>
<td>1.5286%</td>
</tr>
<tr>
<td>Review of International Political Economy</td>
<td>17</td>
<td>1.3677%</td>
</tr>
<tr>
<td>Development and Change</td>
<td>16</td>
<td>1.2872%</td>
</tr>
<tr>
<td>International Affairs</td>
<td>16</td>
<td>1.2872%</td>
</tr>
<tr>
<td>Economic Journal</td>
<td>15</td>
<td>1.2068%</td>
</tr>
<tr>
<td>Institute of Development Studies</td>
<td>15</td>
<td>1.2068%</td>
</tr>
<tr>
<td>Bulletin of Indonesian Economic Studies</td>
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<td>1.1263%</td>
</tr>
<tr>
<td>International Journal of Health Services</td>
<td>14</td>
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</tr>
<tr>
<td>Foreign Affairs</td>
<td>13</td>
<td>1.0459%</td>
</tr>
<tr>
<td>Global Governance</td>
<td>13</td>
<td>1.0459%</td>
</tr>
<tr>
<td>Journal of Development Studies</td>
<td>13</td>
<td>1.0459%</td>
</tr>
<tr>
<td>Journal of Contemporary Asia</td>
<td>11</td>
<td>0.8850%</td>
</tr>
<tr>
<td>Journal of Modern African Studies</td>
<td>11</td>
<td>0.8850%</td>
</tr>
<tr>
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<td>10</td>
<td>0.8045%</td>
</tr>
<tr>
<td>Journal of World Trade</td>
<td>10</td>
<td>0.8045%</td>
</tr>
<tr>
<td>Journal of Developing Areas</td>
<td>9</td>
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</tr>
<tr>
<td>Developing Economics</td>
<td>8</td>
<td>0.6436%</td>
</tr>
<tr>
<td>International Studies Quarterly</td>
<td>8</td>
<td>0.6436%</td>
</tr>
</tbody>
</table>

This reduced the number of relevant studies to 152. Based on a thorough review of the abstracts alone, this core list of studies was classified into four categories: primary, secondary, peripheral, and not relevant. Criteria according to which this classification is conducted are reported in Appendix A.

Table 2.5: Search Protocol for SSCI

<table>
<thead>
<tr>
<th>Search string</th>
<th>Scope</th>
<th>Date of search</th>
<th>Date range</th>
<th>Number of entries</th>
<th>Number of relevant</th>
<th>Total relevant</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMF AND condition*</td>
<td>Title and topic</td>
<td>1/15/2011</td>
<td>1980–2011</td>
<td>212</td>
<td>158</td>
<td>453</td>
</tr>
<tr>
<td>IMF AND implement*</td>
<td>Title and topic</td>
<td>1/15/2011</td>
<td>1980–2011</td>
<td>2544</td>
<td>1797</td>
<td>2250</td>
</tr>
<tr>
<td>IMF AND bureaucra*</td>
<td>Title and topic</td>
<td>1/15/2011</td>
<td>1980–2011</td>
<td>211</td>
<td>46</td>
<td>2296</td>
</tr>
<tr>
<td>IMF AND compli*</td>
<td>Title and topic</td>
<td>1/15/2011</td>
<td>1980–2011</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
This categorization is done purely on the grounds of relevance within the subfield I review: implementation of and compliance with IMF conditions. Hence, this effort should by no means be taken as a judgment on the quality of included articles. Albeit desirable, due to the vast number of articles retrieved, it was not feasible to conduct this categorization using full texts. In addition, some articles lacked coherent and succinct abstracts. Abstracts indicating theories and/or findings related to the reviewed subfield were categorized as of primary relevance. Moreover, those concentrating on subjects beyond the scope of this review or of ambiguous relevance were deemed secondary. Peripheral articles were those with abstracts incorporating theories or concepts of little bearing to the implementation of IMF agreements. To overcome the difficulties of this process, I assessed the relevance of articles without detailed abstracts by scanning the article in its entirety. When in doubt, I included articles in the primary relevance category in order to review them further.

To identify major themes, the abstracts of 51 articles initially categorized as primary were exported to the NVivo program – a qualitative data analysis software. Using the ‘in-vivo’ coding function, which enables researchers to code words or phrases as nodes, I re-categorized the core list and reduced the number of primary articles to 46. Most of the eliminated articles were re-categorized as secondary or peripheral studies, owing to their focus on bureaucracy or analyses of certain domestic institutions without direct links to the question of econocrats’ contributions to the implementation of IMF programs. At this stage, fifteen articles that were heavily cited by studies in the primary category, but not indexed by SSCI, were also added. After coding and reviewing the full texts, nine of these articles were categorized as primary, bringing the final number of primary articles to 55.
Table 2.6: Title Analysis

<table>
<thead>
<tr>
<th>Search string</th>
<th>Elimination criteria</th>
<th>Excluded documents</th>
<th>Total relevant documents</th>
</tr>
</thead>
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<td></td>
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</tr>
<tr>
<td>Document type</td>
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<tr>
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<td></td>
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<tr>
<td>Book reviews</td>
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<td>179</td>
<td></td>
</tr>
<tr>
<td>IMF AND implement*</td>
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<td></td>
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<td>Document type</td>
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</tr>
<tr>
<td>IMF AND bureaucra*</td>
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<td></td>
<td></td>
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<tr>
<td>Duplicates</td>
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<td></td>
</tr>
<tr>
<td>Anonymous authors</td>
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<td></td>
</tr>
<tr>
<td>Book reviews</td>
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<td>36</td>
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</tr>
<tr>
<td><strong>Total</strong></td>
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</tr>
</tbody>
</table>

Table 2.7: Keyword Filter in Endnote X3

<table>
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<td>Keywords</td>
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Table 2.8: Breakdown of Abstract Analysis

<table>
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<tr>
<th></th>
<th>Primary</th>
<th>Secondary</th>
<th>Peripheral</th>
<th>Not Relevant</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Part 1: Abstract review (see Appendix A)</td>
<td>51</td>
<td>35</td>
<td>34</td>
<td>32</td>
<td>152</td>
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<tr>
<td>Part 2: In-vivo coding</td>
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<td>32</td>
<td>33</td>
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<td>143a</td>
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<tr>
<td>Part 3: Article review</td>
<td>55</td>
<td>36</td>
<td>34</td>
<td>33</td>
<td>158b</td>
</tr>
</tbody>
</table>

*a* A further nine book reviews were removed.  
*b* Fifteen articles were included that had been indexed by databases other than SSCI.

Mapping the Field

The method of in-vivo coding allows researchers to compare articles directly, isolate common themes, and to pinpoint divergent and convergent research tendencies within the literature. The main objective is “to provide a broad ranging descriptive account of the field with specific exemplars” rather than to impose one’s own organizational views upon diverse and sometimes unrelated or opposing approaches (Transfield et al. 2003, 218; Macpherson and Holt 2007, 176).

This framing process in NVivo also laid out a general picture of the field in terms of temporal trends, popular research outlets, and methods used. I will present these results in what follows before reporting the findings on the main themes.

Figure 2.2 provides a breakdown of the articles by the job location of their primary authors.30 An overwhelming contingent of these scholars is employed in American and European universities. In addition, most of these articles find themselves an outlet in European journals (Figure 2.3). This characteristic of the field obviously reflects the Western-centric nature of the social sciences, yet also reveals a strong research interest in this part of the world. This finding can be explained by the geographic location of the IMF, as well as

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30 Counting all co-authors returns a similar result.
compliance being a major preoccupation of Western donor countries.

Figure 2.2: Breakdown of the literature by job location of the primary author

The number of articles published in the field has steadily increased since the late 1990s (Figure 2.4). This increase can be attributed to greater data availability, as well as growing scholarly interest in implementation. Since the IMF started making segments of its arrangements available on its website, researchers have been able to examine a multitude of questions using the IMF’s own data. In addition, well-established scholars of the field have written articles emphasizing the need for in-depth analysis of the implementation stage (Bird 2008, Vreeland 2006). Despite this general upward trend, however, the number of articles published in the most productive years is still limited (9 in 2004, for example). This aspect, though possibly reminiscent of the theoretical and methodological difficulties that researchers face in this field, also implies that a much more prolific research agenda remains to be cultivated.

Figures 2.5 and 2.6 categorize primary articles according to the methodology used and the publishing outlet chosen. Whenever possible, methods openly expressed in the studies are coded as such. Given the recently made available IMF data, most of the primary articles have employed an empirical approach. Among these studies, those focusing on
domestic variables are scarce due to the interdisciplinary structure of the field. Implementation is an interdisciplinary subject that brings together several fields and subfields such as American politics, public administration, political economy, sociology, economics, and law. Exceptions use variables such as regime type or bureaucratic capacity scores (Nooruddin & Simmons 2006).

In addition, studies that employ mixed methods are rare (approximately 5 percent of the literature). Except for a few comparative articles (e.g. Woods (2006b)), case study articles often rely on a single example.

Although its multi-disciplinary nature increases interest in the field, it also poses a significant obstacle to researchers who have to master multiple literatures and develop relevant variables from each. As a result, there is no one outlet that focuses on this literature. In fact, 36 percent of all the articles are one of a kind in their outlets. Most implementation-related articles have appeared in the Review of International Organizations (5), International Organization (4), IMF Staff Papers (4), Emerging Markets Finance and Trade (4), Review of International Political Economy (3), World Development (3), Public Choice (2), American

This basic picture of the field demonstrates that scholarly interest in the implementation of international agreements, specifically IMF programs, is growing quickly and steadily. This upward trend, though, does not immediately translate into a well-structured research plan. One-third of the literature consists of case study articles, which, despite their immense value in providing a detailed narrative of change, are unable to contribute to building a generalizable and meaningful theory. On the other hand, empirical studies, though abundant, remain underdeveloped theoretically.

The most popular outlets for publication include journals of political economy and international organization. However, communication between these studies and the larger literatures of American politics, public administration, and sociology is limited. Lessons taken from the implementation of IMF programs are rarely transferred to other organizations or to academic studies of international relations. To understand domestic sources of compliance (or non-compliance) better and to assess the role of bureaucrats in implementation, this
Figure 2.5: Breakdown of the literature by methodology used

Figure 2.6: Breakdown of the literature by outlet
field requires an interdisciplinary approach aiming to build a well-grounded, generalizable theory.

Findings

Even though they were selected using a few keywords, the studies compiled for this review exhibit a vast array of concentrations. When categorized, these concentrations reflect classifications in other review articles (Joyce 2004, Steinwand & Stone 2008). These categories and the summary of research findings in this review are reported in Table 2.9.31

*First category* of articles focus on explaining the IMF structure, especially decision-making rules, norms, and staff size. Vaubel (1996) argues that staff growth of IMF can be explained by the economic theory of bureaucracy. In a more comprehensive study, Vaubel, Dreher and Soylu (2007) compare various international organizations and conclude that there is no single reason for staff growth in international bureaucracy. In other words, bureaucratic interests invested in budget and influence maximization can explain the case of the IMF, but not necessarily other international organizations, some of which experience staff contraction. They, however, do not attempt to examine this variation. Incidentally, they also do not consider variations in negotiation and socialization patterns or differences in the educational backgrounds of staff in various organizations.

When it comes to rules and norms, Woods and Lombardi (2006) and Schirm (2009) take into account factors more akin to this thesis, including domestic ideas, interests, bureaucratic incentives and organizational culture. Woods and Lombardi find that there is quite a difference between members of the IMF Executive Board, who represent individual countries, and those who represent groups of countries. Those representing individual coun-

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31 Participation in IMF programs, one of the dominant categories of IMF literature, is categorized under Program Design.
tries are more directly supervised and controlled by their own governments, whereas others enjoy more independence and are more deeply immersed in the organizational culture of the IMF. This finding draws attention to the unevenness of delegation within IMF. Schirm, on the other hand, focuses on how domestic politics affects governance reform within the IMF. Accordingly, international reforms concerning cost-distribution on a specific domestic lobbying group are determined by the interests of that group. On the other hand, the policy preferences of governments on reforms that only diffusely affect lobby groups are formed by ideas, in this case the very ideas that led to the Basel II Accord.

Second category consists of articles that use elements of program design as the dependent variable (DV). This literature includes research questions on participation in IMF programs and variation in IMF lending practices, such as the number and severity of conditions. Copelovitch (2010) reviews this literature and locates two dominant perspectives: an economic perspective using country-specific macroeconomic indicators as independent variables (IV) and an international political economic perspective that seeks answers in either power or bureaucratic politics. The economic branch finds that countries with “fewer foreign exchange reserves, higher levels of external debt, and a record of past IMF borrowing” get larger loans with more conditions attached to them (Copelovitch 2010, 53). Joyce (2004) points out that other core macroeconomic variables seem to have weak or indeterminate effects. In addition, this view assumes that IMF officials are making independent decisions based on a cost-benefit analysis to determine the program design, regardless of political influence.

Studies reported in this review belong to the international political economy perspective. One set of studies in this group explains program design with attention to power politics, given the view of the IMF as a servant of powerful donor countries, especially the United States. Hence, loans and conditionality are believed to be determined by the preferences of those donor countries (Thacker 1999, Stone 2008, Dreher, Sturm &
Moreover, “valued clients” or allies of donor countries receive preferential treatment from the Fund (i.e. in the form of larger loans with lenient conditions). According to some scholars, this effect is conditional on contextual factors.

Pop-Eleches (2009) argues that preferential lending emerges when international financial stability is under threat due to conditions in a systemically important country or region. Therefore, it is not necessarily American pressure alone that renders favorable conditions to countries like Russia, but also the vulnerability of the global economic system. Another systemic factor, according to Copelovitch (2010), is the preference for heterogeneity among the Fund’s major shareholders, namely the G5 governments (United States, United Kingdom, Germany, France, and Japan). His empirical model suggests that both G5 governments and IMF bureaucrats influence program design, and their respective influence depends heavily on the case at hand. In some cases, shareholders are able to act as a collective principal through “logrolling” and by providing bailouts for certain countries. In other cases, the heterogeneity of interests among shareholders results in distributional conflicts, hence tighter conditions for certain clients. Yet, the authority of IMF staff is only partially constrained by this structure. For countries with lesser systemic importance, the IMF bureaucracy retains “agency slack”. Copelovitch does not identify the conditions under which these categories are determined any further. More importantly, he does not consider the effects of client governments and the negotiation process on program design. He includes the “number of veto players” variable in his model, however that fails to specify either the interests or the capacity of those sitting across the bargaining table.
Table 2.9: Summary of Research Findings

<table>
<thead>
<tr>
<th>Research Focus</th>
<th>Findings</th>
<th>Research Gaps</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMF structure</td>
<td>IMF staff growth is explained by the economic theory of bureaucracy through quantitative analysis.</td>
<td>Limited research that considers the role of negotiations, socialization, and background of IMF bureaucrats.</td>
</tr>
<tr>
<td>(Norms, rules, staff size)</td>
<td>Decision-making rules, domestic ideas and interests affect representation within IMF. Lobbying groups influence preference formation of governments, hence global governance structure.</td>
<td></td>
</tr>
<tr>
<td>Program design</td>
<td>Donor (especially US) pressure determines variation in in lending. This effect is conditional on contextual factors. Multiple principals with heterogeneous interests increase agency slack. Domestic economic state, policies being implemented, conflicts of interest affect the number and severity of IMF conditions.</td>
<td>Lack of research on causal mechanisms through which domestic factors determine IMF conditionality. Lack of research on heterogeneity of interests among governmental agencies. Limited research on how donor governments get involved in negotiations.</td>
</tr>
<tr>
<td>(IMF conditionality as DV)</td>
<td>Mostly quantitative analysis using economic variables. Mixed results on program effects on variables such as growth, public debt, poverty, and government spending.</td>
<td>Implementation level of the agreements is omitted. Lack of research on domestic political factors. Mostly apolitical in its explanations.</td>
</tr>
<tr>
<td>Program effects</td>
<td>Studies mostly focus on implementation failure explained by domestic (veto players, partisan shifts) and international (debt sustainability, international pressure) factors. Particpatory democracy leads to successful implementation. Domestic heterogeneity of interests is emphasized, especially in the case of special interest groups.</td>
<td>Absence of strategic interaction Lack of research on mechanisms that determine level of implementation. Limited focus on policy preferences. Few studies use qualitative and quantitative studies together.</td>
</tr>
<tr>
<td>(IMF conditionality as IV)</td>
<td>Implementation of Fund-prescibed policies leads to institutional change as well as unexpected consequences such as economic crisis. Both arguments are based on single case studies.</td>
<td>Lack of more comprehensive empirical research. Implementation level is omitted.</td>
</tr>
</tbody>
</table>
Drazen (2002), Chaudhry, Kelkar and Yadav (2004), and Dreher (2004) turn to domestic contextual factors instead of systemic ones. They argue that the policies and interests of client governments influence the scope of conditionality. Drazen, moreover, argues that the very existence of conditionality in IMF programs is a testament to the heterogeneity of interests in domestic politics. He uses a model that illustrates a conflict between a reformist government and domestic interest groups opposing reform. In doing so, he distinguishes government and country ownership of IMF programs. However, apart from explaining why conditionality exists, his model does not examine how the heterogeneity of domestic interests affects program design. This question is partially addressed in other articles. Chaudhry, Kelkar and Yadav (2004), for instance, focus on the 1981 case of India and argue that economic reforms and the 1970s concept of “homegrown conditionality” awarded India the largest IMF loan given to a developing country to date. Accordingly, reformist governments that demonstrate their ability to carry out tight monetary and fiscal policies are more likely to receive favorable treatment from the Fund. Considering this argument along with Drazen’s, one may infer that clients showing true ownership of economic reforms (government and country) are later approved for programs with larger loans and lesser conditionality by IMF. This inference is supported by Dreher’s (2004) empirical analysis. He finds that the number of IMF conditions increases with “bad” economic policies, including high government consumption and high public debt.

Third category of articles reviewed considers the broad issue of program effects. With eight of the 55 primary articles in this review concentrating on the effects of programs, it is clear that the subject is attracting much attention. One reason for this popularity is the greater/new availability of country-specific data on growth, public debt, poverty, and government spending – with indicators of economic well-being used as dependent variables in these studies. Another is the practical importance of examining whether or not the Fund’s prescriptions do what they promise to do, such as promoting economic recovery from financial crisis and balance-of-payments problems. The literature, however, is unable
to provide a unified answer. Some scholars suggest that IMF intervention reduces economic
growth (Vreeland 2003, Dreher 2006) and decreases public spending on health and education
(Nooruddin & Simmons 2006). On the positive side, others show that Fund’s programs lower
budget deficits and inflation levels (Evrensel 2002, Dreher & Vaubel 2004). As Steinwand
and Stone (2008) emphasize, these mixed results partly stem from the newly acquired focus
on selection effects.

While scholars try to improve their models by accounting for selection bias (non-
random effects of participation on program outcomes), theoretical studies go further and
concentrate on the political consequences of IMF intervention. Woods (2006b) argues that
variation in IMF intervention leads to variation in pathways from financial crisis. A compar-
ison of two sets of IMF clients suggests a subtle difference: a more gradual and heterodox
adjustment (Malaysia, India, and South Africa) versus a tighter IMF grip on policymakers (Argentina, Turkey, and Indonesia). Accordingly, the latter leads to postponement of
difficult policy choices and even political upheavals. Graham and Masson (2003) agree by
connecting strict conditionality to the humanitarian crisis in Argentina. Collier and Gun-
ning (1999) point to a “lack of distributional analysis and poor sequencing of reforms, [and]
notably premature financial liberalization” as the reason for such drastic program outcomes.
Voyvoda and Yeldon (2005) focus on the effects of the IMF program on public debt in Turkey.
They provide a more optimistic perspective, but emphasize that any improvement will be
slow and gradual under IMF scrutiny.

Both empirical and theoretical studies omit the issue of implementation and try to
draw a strict parallel between program participation and program effects. Unfortunately,
most of these studies run the risk of being apolitical by neglecting the intertwined structure
of bargaining and the implementation stages, as well as the preferences of domestic actors.
Mayer and Mourmouras (2004) model the IMF as a benevolent lobby in domestic politics,
which can decrease the inefficiencies stemming from domestic conflicts of interest. Theirs is
one of the few studies in this review that incorporates strategic interaction into traditional literature.

Studies that aim to explain program implementation make up the *fourth category* and also the main focus of this dissertation. Of 55 reviewed articles, 15 treat implementation as the dependent variable. Six in this category use quantitative methodology, five are case studies, and the remainder include theoretical and review articles. Articles with a quantitative approach employ measures of implementation recently made available by the IMF Database for Monitoring Fund Arrangements (MONA). Their explanatory variables consist of macroeconomic indicators, such as trade openness, foreign reserves, GDP per capita and government spending, as well as political indicators, including regime type, polarization, number of veto players and partisan shifts in government. Bureaucracy is considered in some of these articles, though only with regard to its quality, using proxies such as the risk ratings from the International Country Risk Guide (Ivanova et al. 2003, Nsouli, Atoian & Mourmouras 2006). 32 Although these studies shed some light on determinants of non-compliance, their analyses remain devoid of any sense of narrative, especially of strategic interaction.

Simmons (2000b) and Grieco, Gelpi and Warren, (2009) conduct empirical studies on compliance with the IMF Articles of Agreement instead of program compliance. 33 Simmons finds that regional context and domestic respect for rule of law affect compliance with international commitments. Countries are more likely to comply if others in their region have a history of complying. In addition, a high value on the rule of law by the respective government also suggests a propensity towards compliance. Grieco, Gelpi and Warren focus on national preferences to explain variation in compliance with the IMF treaty. They use relative changes in the partisan orientation of a country’s executive branch as a proxy for

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33 Articles of Agreement requires members to maintain a par value for their currency (until 1977), to use a single unified exchange-rate system, and to keep their current account free from restrictions.
national preferences. Their findings suggest that compliance with treaty provisions decreases with right-to-left partisan shifts, but remains consequential nonetheless. In his article, Von Stein (2005) argues that these studies neglect the selection bias problem. He argues that treaty compliance is determined by unobservable, endogenous conditions that lead countries to sign the agreement in the first place.

In these studies, compliance is a dichotomous phenomenon due to the nature of international commitments under consideration. Policy adjustments required by the Articles of Agreement are different from those in IMF programs. Often, governments can make these Articles of Agreement adjustments once whereas each IMF program involves several tranches with several attached conditions. Hence, program implementation requires long-term bargaining—domestic and international—that cannot be captured by these empirical models. Dreher (2003), Joyce (2006), and Arpac, Bird, and Mandilaras (2008) take steps toward exploring this new territory.

Dreher (2003) chooses to examine program interruptions in pre-electoral periods. Using panel data for 104 countries between 1975 and 1998, he finds that IMF programs seem more likely to break down before elections. This impact is less severe in more democratic countries. Dreher argues that the IMF expects non-compliance before elections and concludes arrangements with the aim of avoiding interference with political processes. This perspective dismisses the roles played by domestic actors in pre-electoral periods. Case studies in Chapter 5 of this dissertation suggest that, under certain circumstances, econocrats are able to communicate to Fund officials the difficulties of implementing costly economic policies and persuade them to grant waivers. In datasets, these are sometimes regarded as interruptions, a form of non-compliance, rather than being recognized as a form of bargaining and cooperation.

Joyce’s (2006) article is one of the rare studies that both presents and tests a theoretical model of implementation. According to this model, borrowers and the Fund each
evaluate the marginal benefits of a program, its relevant time frame, and the discount rate differently. As a result, borrowing governments that are more open and democratic have longer horizons for national welfare. This also results in their more positive records of implementation than those of autocratic and/or politically fragmented countries. The results of Joyce’s empirical analysis show that program implementation is affected by a country’s trade openness, its degree of political openness, the duration of the political regime, as well as the ideological cohesion of the government.

Clearly, Joyce’s approach moves even further than others by accounting for the heterogeneity of interests. By allowing borrowers to hold their own perception of program benefits apart from the Fund’s, Joyce takes up the oft-neglected issue of heterogeneity. However, Joyce considers the borrowing government as a unitary actor and does not extend his model to include the domestic heterogeneity of interests. Still, his approach reveals a new research agenda.

One of the articles that follows this research agenda is that of Arpac, Bird, and Mandilaras (2008). Their empirical analysis demonstrates that trade openness, the number of veto players, and the amount of IMF loans available all affect program implementation. Using the “checks” data assembled by the World Bank’s Database of Political Institutions (DPI), they measure the impact of veto players on program interruptions. Arpac, Bird, and Mandilaras argue that incorporating this variable provides empirical support for Drazen’s (2002) theory of special interests. The domestic heterogeneity of interests, then, warrants conditionality even with program ownership. In addition, Arpac, Bird, and Mandilaras suggest that domestic opposition may also lead to program interruptions. While also recognizing the shortcomings of large sample data pertaining to political variables, they emphasize the need for a series of structured case studies. This dissertation builds upon this recommendation and employs further case studies to investigate the effects of a heterogeneity of interests in the domestic arena.
Articles that adopt a case study approach are more likely to excavate and scrutinize the implementation process and strategic relationships. Papava (2003), for example, tracks the “achievements” and “errors” of the Fund in its dealings with Georgia. He articulates three important factors that contributed to the Fund’s errors: 1) the inexperience of the Georgian governmental team; 2) the incompetence of some team members; and, 3) the conflicting interests within the Georgian government. As bureaucrats of a post-communist economic system, members of the Georgian negotiation team lacked “experience with conducting such talks [and] a good understanding of IMF procedures” (Papava 2003, 9). Hence, they readily accepted the implementation of recommended policies without recognizing and communicating the limits of their policy-making capacity. Furthermore, some members of the team raised erroneous and inappropriate questions in negotiations with Fund officials, leaving an unattractive impression. This became yet another barrier between the negotiating parties. Papava also argues that the Georgian bureaucrats representing the fiscal and budgetary agencies were not willing to assume responsibility for the program, especially in regards to taxation reform. In fact, these officials instead promoted the establishment of a Ministry of Tax Revenues to weaken the Ministry of Finance.

While Papava’s article focuses on the process of implementation for the IMF and only tangentially covers the domestic heterogeneity of interests, he makes a considerable contribution by emphasizing the roles of negotiated terms and negotiators in implementation. Erbas (2004) makes a similar point using a formal model. Though not accompanied by a case study, Erbas’s model supports Papava’s findings on Georgia. Simply put, “big bang” programs with more conditions and less flexibility may backfire, hindering implementation and forcing policymakers to violate at least some program commitments. Instead, a flexible approach in streamlining conditionality may strengthen program ownership, hence increasing program success. Erbas does not consider the role of the domestic negotiation team in acquiring such agreement terms and considers the issue as a supply-side problem, as does Papava.
Juwana (2005), Patton (2006), as well as Arpac and Bird (2009) identify this gap and delve into the domestic implementation process. In the Indonesian case, the Bankruptcy Act was a program condition set by the IMF that was designed to liquidate insolvent domestic companies and relieve foreign creditors. However, it was not implemented fully due to resistance from the commercial Courts. Indonesian judges adopted a defensive reaction against foreign creditors in most court cases. This finding is similar to Mertha and Pahre’s (2005) on the role of local Chinese governments in the partial implementation of Sino-American agreements. However, different from them, Juwana does not investigate the strategic relationship between the bargaining and implementation stages. He assumes that failure in implementation due to legal bureaucracy was neither expected nor strategically calculated by the Indonesian negotiators.

Patton (2006), on the other hand, approaches the issue from another perspective. Why would an openly anti-IMF government implement IMF prescriptions? During its 2001 electoral campaign in Turkey, the Justice and Development Party (Adalet ve Kalkınma Partisi – AKP) promised to reject IMF-sponsored policies in accordance with its ideological foundation. However, once in power, the AKP government not only adhered to the conditions of the IMF program already in place, in 2008, it signed and concluded one of the most successful programs in Turkish history. Patton attributes this situation to international (debt sustainability, pressure from the IMF and the EU) and domestic factors, among which AKP’s unpreparedness for establishing economic policy and the tactics of the opposition are emphasized.

Arpac and Bird (2009) conducted in-depth interviews with policymakers to analyze the same period in Turkey. They argue that program implementation depends on a broad range of factors, including domestic political economy factors, such as political cohesiveness, program ownership, special interest groups, and idiosyncratic factors. In the case of Turkey, one of these idiosyncratic factors was the presence of “influential technocrats” (Arpac &
Bird 2009, 135). Arpac and Bird present the Turkish case as an exception in which “the reforms were pushed through by a group of technocrats in the absence of political cohesion” (Arpac & Bird 2009, 147). Even though Turkish econocrats and IMF officials reveal a harmony of interests in some interviews, this is neither a basis for compatibility nor a common phenomenon. As interviews in Chapter 5 reveal, a pro-reform bureaucracy prepares policy documents ready for implementation long before the window of opportunity for reform is actually open. In the Turkish case, that window of opportunity was the 2001 crisis and the arrival of Kemal Derviş as the coordinating minister.

To sum up the findings of this review for the fourth category, a recent trend has arisen to explain variation in the degree of program implementation with domestic factors. Case studies in this category are especially valuable in laying a new path for researchers. In-depth analyses of IMF programs in specific countries show reasons for both success and failure. Successful implementation of reforms in South Korea, for example, is attributed to the participation of civil society in state affairs, which results in institutional capacity building. Reforming the central bureaucracy and market by mobilizing the whistle-blowing activities of civil organizations led to the implementation of neoliberal economic policies (Lee & Park 2009). On the other hand, Calvo-Gonzalez (2007) shows that the possibility of program failure may surface due to domestic factors. Based on the case of Franco’s Spain (1959 stand-by arrangement), he argues that both pro- and anti-reformists in government act according to their private interests when negotiating and implementing IMF-recommended policies. Therefore, “the heterogeneity of interests does not refer only, or even mainly, to differences between the IMF and the recipient country, but to interests within the recipient country” (Calvo-Gonzalez 2007, 330). This understanding departs from the others and explains implementation through a comparison of its marginal costs and benefits (Bird 2008) or with the support (or lack thereof) of special interest groups (Mayer & Mourmouras 2008). It also takes into account the possibility of heterogenous policy preferences and strategic interaction within government instead of assuming a unitary policy-making structure.
The Fifth category is comprised of studies that investigate the effects of program implementation. Due to implementation being a relatively new field of research, there are only three articles in this category, with only one utilizing a quantitative measure of implementation. Mercer-Blackman and Unigovskaya (2004) find that though compliance with structural benchmarks has no significant effect on growth in program countries, there is a positive relationship between the index of compliance with quantitative performance criteria and growth, even after controlling the extent of initial stabilization. Cizre and Yeldan (2005) and Sato (2005), on the other hand, use case studies of Turkey and Indonesia, respectively, to evaluate the effects of program implementation. Their arguments do not specify implementation levels within or across case methods, which leaves no tools to generalize their conclusions. According to Cizre and Yeldan (2005), the implementation of the 1999 program, especially the process of integration with global capital markets, led to an economic and political crisis in Turkey. This effect was not a result of administrative mismanagement, but a global phenomenon that came to be expected in similar integration cases. This approach demonstrates a generally critical view of IMF-sponsored policies, but dismisses any role played by domestic actors in negotiating or implementing those policies. Sato (2005) uses a different method by focusing on domestic actors, specifically the banking sector and the Indonesian Central Bank. He argues that bank restructuring, driven by IMF conditionals, resulted in domestic institutional change in the form of a more independent central bank. Yet again, it is unclear how this change was initiated or arrived to the point at which the Indonesian Central Bank broke free from the Ministry of Finance and gained authority over the banking system. Was it simply due to the implementation of the IMF program? Or, was it the strategic planning of the central bankers that brought about change?
2.1.3 Determinants of Non-Compliance

Compliance is a common concern for most cooperative efforts because of the distributive effects of collaboration and the lack of legitimate authority to rule in the case of defection. Academic research has predominantly focused on ensuring compliance by providing information about the preferences of actors, and has emphasized formal institutions as monitors of implementation (Axelrod 1984, Keohane 1984, Lipson 1984, Martin 1992, Pahre 1994). In this regard, the IMF’s main primary function can be defined as serving as a delegated monitor (Tirole 2002). Yet, interestingly enough, most of the literature on compliance with the IMF’s conditions is devoted to investigating the link between implementation and economic growth (Bird 2001, Dreher 2006, Killick 1995, Przeworski & Vreeland 2000). As the previous section shows, this approach is both apolitical and incomplete. Assuming that states maximize social welfare, why would they then not implement an agreement that would undoubtedly improve their economic standing? This literature does not consider the preferences of actors and the strategic interaction between them. In addition, though these studies aim to analyze the macroeconomic effects of IMF-supported programs, to do so they must assume the full implementation of conditions while also omitting the determinants of non-compliance.

In order to decide on whether or not IMF programs work, it must first be determined whether or not they were actually implemented, and, if not, what were the reasons for not implementing them. However, one’s answers to these questions depends on his or her approach: top-down or bottom-up. From a top-down perspective, emphasis is placed on the interplay between the major unitary actors, in our case a borrowing country and the IMF.

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34 Cooperation based on coordination between parties with overlapping interests—trying to choose from multiple equilibria—constitutes a different category (Stein 1982). Others argue that international cooperation involves both coordination and collaboration (Fearon 1998). IMF arrangements, due to their highly redistributive nature, mostly face compliance-related issues, but are also not immune from problems of coordination.
This approach explains non-compliance due to systemic political problems in the recipient country, such as political instability, lack of political cohesion, and bureaucratic inefficiency, or with more general problems, e.g. moral hazard (Ivanova et al. 2003, 40).

This set of factors suggests that the progress of adjustment programs are hindered by changes in structure. Accordingly, programs are often interrupted by actors whose incentives are affected by exogenous shifts (e.g. elections). The problem of moral hazard, for instance, plagues loan agreements because of changes in a recipient’s incentive to take preventive measures against future crises. With the much-needed financial support of the Fund, recipient governments are able to relax some of their tight austerity measures. In essence, however, the Fund’s financing itself increases the probability of financial crisis (Lane & Phillips 2000). In such a scenario, non-compliance is a result of policies from above.

Table 2.10 summarizes determinants of non-compliance according to this approach and provides examples.

While this study does not reject the importance of these factors, it finds the top-down approach confining and limited. Instead of focusing on the actors –that is econocrats– who deal with implementation, this perspective underlines the external and/or macro-level conditions that pave the way for defection. Alternatively, one may analyze the incentives and expectations of the key actors.

A bottom-up approach towards cooperation can help us understand how actor- or agency-level factors interact with structural problems. For example, political instability and moral hazard are risks common to nearly all developing countries under IMF supervision; yet, nearly half of these countries are able to comply with IMF requirements and complete their programs. Intuitively, another set of factors may determine the degree of non-compliance in collaboration with the aspects introduced by the top-down approach. The bottom-up perspective in this thesis suggests that this second set of determinants comprises the incentives
Table 2.10: Determinants of Non-compliance in IMF Literature: A Top-Down Approach

<table>
<thead>
<tr>
<th>Determinants (IVs)</th>
<th>Examples</th>
<th>Finding</th>
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                           Killick (1995), Joyce (2006), Arpac et al. (2008) | Unfavorable initial and external macroeconomic conditions increase likelihood of non-compliance, e.g. negative shocks. |
| Veto players               | Arpac et al. (2008)         | Program interruptions become more likely as number of veto players increases. |

At this point, I turn to the larger international relations literature to assess the existing explanations of non-compliance and see if they fit with the empirical puzzle in hand. This analysis will also help us lay the foundation for a general theory of implementation.

2.2 Cooperation and Compliance

The implementation stage is what enables or deters international cooperation. The extent to which the provisions of a particular treaty are implemented determines the compliance level, and the eventual effectiveness of international obligations. Despite its essential nature, most literature on international cooperation is dedicated to the pre-agreement...

Empirically, cooperation scholarship treats compliance as a dichotomous variable: signatory states either adopt international standards of human rights, eliminate high tariff rates, limit their military expenses, or choose to forego such measures. In practice, however, compliance level is a continuous variable determined by an implementation process. Aside from the ease of using a dichotomous variable, one reason for this discrepancy is to equate ratification with implementation (Mertha & Pahre 2005, 698-699). Existing research assumes that once an agreement is signed and ratified, implementation will follow automatically. The underlying presumption is that those actors in control of the ratification process will also carry out the implementation effort. Their earlier approval of the agreement, then, will facilitate actual policy adjustments. In this treatment, partial implementation is attributed to capacity problems or ambiguity in treaty language – in a two-level framework, involuntary defection (Putnam 1988).

Putnam’s “two-level games” analogy has established a theoretical path to link the pre- and post-agreement phases. Yet, the main concern of this literature is not the implementation of agreements, but rather the possibility of cooperation under ratification constraints. The theory of two-level games suggests that international agreements are negotiated between heads of states at Level I, and formally or informally ratified by domestic institutions at Level II. It argues that ratification constraints (e.g. a divided government) might improve the bargaining power of the executive at the international negotiation table, while at the same time decreasing the likelihood of cooperation because of the reduced win-set.  

35 A new strand emerged out of this literature that pays particular attention to the process of implementation and its relationship to the bargaining stage. See Jönsson and Tallberg 1998 and Mertha and Pahre 2005.

36 See, for example, Kahler 1993, Schoppa 1993, Putnam 1988.

words, the legislature’s threat of rejecting the agreement or not implementing its terms might tie the executive’s hands when making compromises at Level I. While such hand-tying might be desirable under certain circumstances (Schelling 1960, Mo 1995, Pahre 1997, Tarar 2001), it generally makes cooperation less likely.

While this framework sets an example for exploring the linkage between domestic and international politics, it neither addresses the implementation process nor considers bureaucrats as mediators between the “inside” and the “outside”. The next step to take, therefore, is to build upon the “two-level games” scholarship by developing “interactive models that link domestic and international politics more closely” (Haggard & Simmons 1987, 515). To this end, it seems fitting to conduct an exploration of IMF treaties for which formal ratification is not required and implementation remains a contentious subject among domestic actors. Though a formal ratification process for IMF programs is lacking, there is hardly any reason to assume that the process of implementation is trivial. The absence of a ratification threat means that conflicts of interests in domestic politics (regarding the terms of the treaty) do not surface until the later implementation stage. For this reason, the implementation of the Fund’s conditions becomes a controversial issue and a potential basis for conflict.

Similar to the two-level games framework, though, econocrats as mediators between the Fund and the political will in their country expect these conflicts and try to mold the bargaining and the implementation stages. Whether or not they are successful depends on their preferences and level of autonomy. On the other hand, as in Putnam’s theory, this situation carries certain risks. Empowerment of econocrats with transnationalist, conservative preferences may grant politicians more flexible conditions, waivers, and other concessions while also creating domestic rivals in policy-making.

While two-level games literature presents an influential approach to the dynamics of domestic and international stages of cooperation, another research agenda of a more
static nature focuses exclusively on the compliance problem. This strand renders different mechanisms to address non-compliance: management and enforcement (Chayes & Chayes 1993, Downs, Rocke & Barsoom 1996).

Variations in the compliance behavior of sovereign states presents an intriguing puzzle for international relations theory. If commitments are unenforceable when there is no authority to enforce or when deviations are undetectable as Schelling (1960) suggests, then non-compliance is to be expected. On the other hand, if states are capable of building mechanisms of monitoring and enforcement, then non-compliance should instead be a rare occurrence. However, neither is the case and the literature lays out several explanations for compliance or non-compliance. Most of these existing explanations can be classified under one of two umbrella categories: consequence-based or process-based.

2.2.1 Consequence-based Explanations

This category is comprised of studies that treat compliance along with the inducements promised by the signed treaty. Sovereign states are compelled and encouraged to comply with the terms of the agreement by the promise of rewards or the threat of sanctions.

The enforcement approach, for instance, explains non-compliance with the incentive structure of the states because simply signing an agreement does not reveal a state’s intention to implement it. The incentives for the receiving state before and after an agreement may vary significantly (Haas 1998). Compared to making the actual policy adjustments and mobilizing the necessary resources, signing an agreement is a low-cost political gesture. Because decision to honor the terms of an agreement is not necessarily dependent on the decision to sign that agreement, states may choose to deviate from those terms if and when
the benefits of doing so exceeds the costs of detection. This proposition leads advocates of this approach to the logical conclusion that the only way to guarantee compliance is to increase the costs of defection through effective monitoring and credible sanctions (Axelrod 1984, Yarbrough & Yarbrough 1985, Downs, Rocke & Barsoom 1996).

Distinct from the management approach, this literature sees partial implementation as a result of deliberate decision-making, albeit assuming a unitary actor. Enforcement theorists, however, believe that compliant state behavior is driven by the carrots-and-sticks of the treaty regime. Simply put, states take on implementation to gain rewards or to avoid sanctions. Reputation is one of the rewards that a compliant party gains (Keohane 1984, 104-106). In fact, in formal theory, compliance constitutes an equilibrium in the Prisoner’s Dilemma (PD) game when iteration compels parties to cooperate (Snidal 1991, Fearon 1998). In studying sovereign lending, some scholars use this line of argument and explain the repayment of debts with its positive effect on reputation, which grants the borrowing country “continued access to international capital markets in the future” (Weidenmier 2005, 407).

IMF agreements run consecutively and often longer than originally planned. Therefore, governments that attach higher discount factors for future cooperation with the Fund (i.e. getting loans) may care more about their reputation and be more likely to comply than others (Fafchamps 1996). Yet, this argument depends on the assumption that politicians are not myopic and expect to be under IMF supervision for a long time under consecutive agreements. It also disregards the basic properties of sovereign lending, particularly the absence of a contract enforcer.

In domestic politics, the state takes measures to mitigate the vulnerability of lenders by guaranteeing the repayment of debts with collateral. In sovereign lending, on the other hand, there is no third party contractor to enforce the financial agreement. Different from corporate debtors, a highly indebted state that cannot meet its financial obligations can
neither be liquidated, nor can its assets be seized. In addition, there is no bankruptcy law for nation-states. Politicians, therefore, always have the option to renegotiate or to reschedule an agreement (Eaton & Gersovitz 1981, Fafchamps 1996, Koremenos, Lipson & Snidal 2001, Wiggers 2002). With such an alternative, it would be misleading to assume that governments would abide by the Fund’s conditions just for the sake of their reputation. Consequently, most scholars dismiss reputation incentives as a credible source of compliance, arguing that the future gains associated with being a good borrower is deeply discounted (Fernandez-Arias 1991).

Literature on linkage politics reveals another direction for consequence-based explanations. Compliance or non-compliance with IMF agreements might entail indirect rewards or punishments through the linkage of issues and players (Stein 1980, Keohane 1984, Lohmann 1997). For example, a new program with the Fund increases the borrowing government’s credibility in international markets. Brune, Garrett and Kogut (2004) argue that the privatization of state assets under IMF supervision causes this increase. On the other hand, Jensen (2004) finds a negative correlation between the signing of IMF agreements and the inflow of foreign direct investment. Whether or not increasing international credibility is one of the side-payments of IMF agreements, it is possible to think of similar rewards for compliant clients. At the very least, countries under IMF supervision gain technical advice and improvement in their human capital through technology transfer. Yet, are these rewards enough to facilitate cooperation? Do they offset the immediate economic and electoral costs of a structural adjustment program?

If states are assumed to decide on their level of compliance by calculating the costs of deviation, then the threat of sanctions is a more compelling tool for enforcement than the loss of reputation or side-payments. Scholars who support this gunboat model argue that the imposition of formal or informal sanctions, such as trade embargos or other restrictions on trade credit, facilitate the repayment of debts (Bulow & Rogoff 1989). Empirically speaking,
the issue of sanction effectiveness is a broader subject on which the literature has no consensus of opinion. On the issue economic sanctions, though, most scholars agree that the strategy is only effective with careful targeting and coordination by an international organization (Pape 1997, Drezner 1998, Drury 1998).

The IMF, on the other hand, neither imposes trade sanctions on non-compliant clients nor has the organizational means to coordinate such an effort among its members. The repercussions of non-compliance include postponement of loan disbursements and suspension of programs. The problem is that by the time these sanctions are imposed, the borrowing government has already received a considerable fraction of the loans. This strengthens the government’s hand for renegotiation, as well as in rescheduling the repayment of debt.

These renegotiations, nevertheless, may place an inordinate amount of pressure on client states. Rose (2002) shows that a debt renegotiation with the Paris Club led to a reduction of bilateral trade at a rate of approximately 8 percent per year in each of the subsequent 15 years. This retraction occurs mostly due to the concerns of foreign trade partners that their exports cannot be paid for. In addition, exports or foreign-domiciled assets of the borrowing country can be used as collateral. Wiggers (2002) gives the example of oil exports as collateral for Venezuela. However, responding to non-compliance with indirect trade sanctions is a double-edged sword. Often, the largest trade partners of developing countries are industrialized countries (Bulow & Rogoff 1989). Though sometimes effective in preventing defaults, the threat of trade sanctions may worsen economic conditions in the borrowing country and result in additional problems for private lenders and the Fund.

Taking these arguments back to our subject matter, I must note that the IMF has a well-developed monitoring and enforcement mechanism compared to other international organizations. The carrot in the form of instant access to IMF credit, together with the stick as the suspension of this right, makes the Fund one of the strongest actors in promoting international cooperation. In addition to these direct mechanisms, client states are also rewarded
with side-payments or may be punished through fines depending on their performance.

Nevertheless, the presence of these carrots and sticks does not explain the variations in effectiveness. Most of the consequence-based explanations in the sovereign lending literature focus on the success of sanctions while measuring this success rate with the change in the borrowing country’s behavior. If defaulting countries start to repay their debts, then the enforcement mechanism is said to be successful. If compliance is widely observed, the monitoring mechanism is praised. Yet, these post hoc arguments assume borrowers to be passive actors and fail to account for the implementation process.

The carrots and sticks of an IMF agreement cannot have a uniform effect on all the domestic actors. Econocrats, politicians, and different sectors and socioeconomic groups each experience these rewards and sanctions at varying intensities. Therefore, it is implausible to use these explanations alone to account for the variation in degrees of implementation—a process encompassing many domestic participants with unique interests. Evaluating this literature against the case at hand reveals that a realistic explanation of (non-) compliance does not depend on monitoring and enforcement entirely, but also on having allies or rivals inside domestic politics (Dai 2002).

### 2.2.2 Process-based Explanations

Distinct from consequence-based explanations, this category treats compliance as a result of the cooperative process rather than with carrots and sticks involved (Raustiala & Victor 1998). Some even argue that enforcement that impinges upon or challenges state sovereignty is counterproductive (Downs, Rocke & Barsoom 1996). Instead, parties are managed and persuaded by the processes of socialization, persuasion, and learning. These processes are usually formalized by international regimes (Chayes & Chayes 1993, Checkel
The management school suggests that states sign agreements with the intention to comply. The literature highlights three reasons for this intention: norms, interests, and efficiency (Tallberg 2002). Based on this perspective, states do not shirk their responsibilities deliberately. Their occasional failure to implement agreements stems from capacity problems and rule ambiguity. Non-compliance, therefore, is conceived to be a side-effect rather than a result of willful disobedience.

Managerial theorists attribute partial implementation to lack of economic resources, limited bureaucratic capability and deficits in technical knowledge. Therefore, they prescribe mechanisms to increase transparency, clarify rules, and provide financial and technical assistance. Young (1992, 183) argues that a direct link exists between the effectiveness of an international institution and the governmental capacity of its members to implement its provisions. With this link in mind, most scholars recommend international institutions to level the playing field by helping them in capacity-building and in clarifying any uncertainty regarding the expectations outlined in a treaty.

If I apply this line of argument to explain non-compliance with IMF agreements, a few issues arise. First and foremost, rule ambiguity should be less of a problem for the Fund’s clients. After all, most of them are repeat customers. Furthermore, Fund officials have regular meetings with econocrats in borrowing countries, both before and after the signing of the agreement. That means econocrats have more than one chance to clarify the terms of the agreement. Still, this argument has some merit as it emphasizes the implementation process. Incidentally, some econocrats might be able to communicate much better with IMF officials, which in turn affects the implementation process positively.

In terms of capacity-building, both the World Bank and the Fund offer technical training programs and advising. The IMF spends a fifth of its gross expenditures for
technical assistance and recognizes it as an instrument for achieving strategic objectives (Cortes 2008). Approximately 80 percent of the Fund’s assistance goes to low- and low-to-middle income countries, especially in sub-Saharan Africa and Asia. The types of technical assistance embedded in IMF programs range from offering advice on economic and financial legislation to guidance on the better management of statistical data. IMF teams visit member countries regularly to share expertise on monetary, fiscal and financial policies. More recently, technical assistance has been provided through resident specialists and regional centers (Cortes 2008).

In addition, the IMF Institute has been providing in-depth training for econocrats since 1964. Courses at the Institute form a platform for Fund officials and high-ranking bureaucrats from member states to come together for training programs lasting from four to six weeks. Participants in these courses usually rise to high-level positions in their home countries and later within the Fund itself.

Despite these efforts and the flexibility offered by renegotiation, implementation performance for IMF agreements still varies greatly. Why do some borrowing countries fail to comply even when dealing with an international organization that both manages its treaties and their enforcement? Just as the consequence-based approach does, process-based explanations look for the answers at the international level, especially characteristics of international regimes. Both explanations neglect the strategic relationship among domestic actors with regard to the implementation process, as well as the association between these actors and the IMF.

2.2.3 Building on Existing Explanations

Sanction-based explanations of compliance follow a linear logic that neglects the
political process of decision-making. For example, Wiggers (2002) argues that countries voluntarily decide when to reorganize their debt (i.e. to declare default) by simply comparing the costs of the debt service with the value of punishment in terms of output and foreign trade reduction. As a result of this linear logic, the threshold for default is lowered by exogenous shocks like currency crises. Although this line of thinking addresses defaulting—an extreme case of non-compliance—it fails to explain how countries choose a point on the continuum of compliance that is different from declaring a default.

Another example in the literature—though with more emphasis on the bottom-up political process—lays out the borrowing government’s compliance behavior as an aggregation of individual preferences of various groups over IMF-supported policies. Bäcker (1998, 1999) uses a model that predicts a government’s choice of debt-service as a function of the weighted sum of individual support probabilities. In this case, again, a linear mentality that lacks any framing effect or institutional variation is argued for.

The literature on compliance attempts to explain observed behavior with external factors while building on the principle of international anarchy. International regimes and carrot-and-stick mechanisms are considered as molders of state incentives and expectations, keeping the potential cheaters in line. However, considering compliance as a product of sanctions, rewards, or an indoctrination process of IOs can be misleading. Any policy that creates domestic winners and losers is bound to be an outcome of a conflict between the two. Thus, rewarding or sanctioning a state targets certain groups (e.g. exporters in case of trade sanctions). Likewise, when I mention learning or socialization, I implicitly refer to certain groups such as domestic NGOs (Dai 2002) or experts (Haas 1998).

Actors and their preferences are of course not completely neglected in the literature. On the contrary, many studies have focused on domestic conflicts of interests and their effects on policy-making. A theoretical companion to Bäcker’s approach can be found in the two-level games literature, particularly in Ahmer Tarar’s work on the role of constituencies and
preferences in international bargaining. Tarar (2005) argues that it is possible to construct a two-level model with a bottom-up approach by paying explicit attention to executives and legislators with different constituencies, hence preferences. When the executive has a national constituency and legislators have local constituencies (similar to the US presidential system), the executive benefits from this constraint at the international bargaining table. However, when the executive has a local constituency different from the legislators’ (similar to the case in minority or coalition governments), there is no such benefit for him. Dai (2002), for example, finds that domestic interest groups are natural allies of international regimes. Jaffe and Palmer (1997) investigate whether innovative domestic firms benefit from environmental treaties. Simmons (1994) analyzes the link between partisan interests and international economic coordination. Mertha and Pahre (2005) explain the partial implementation of US-Chinese intellectual property rights agreements due to the divergent interests of local governments. Mayer and Mourmouras (2008) model the IMF as a benevolent public interest institution and consider the preferences of special interest groups.

Building on these studies and the two-level games framework requires us to think of the potential political rivals that IMF agreements may bring face-to-face. Drazen, (2002) along with many other political scientists, states that the heterogeneity of interests is the key to political economy. In its absence, no conflict arises and no puzzle emerges. Modeling the implementation of international financial agreements points out two sets of such heterogeneity: 1) one between the IMF and the sovereign debtor; and, 2) one within domestic politics.

The first divergence of interests stems from the nature and structure of loan agreements. Whereas governments prefer low interest rates, flexible schedules, and more money, lenders and IFIs prefer a more solid program schedule, reforms that guarantee tight monetary and fiscal policies, and timely repayments. Some may argue that this is not a zero-sum game because of the reformist governments and their need to tie their own hands (Vreeland 2002a).
By making the IMF impose reforms that they would carry out anyway, these governments may silence opponents and other unwilling domestic groups. This way of thinking is in fact justified by the process of making financial agreements, which start with a move from governments rather than the loan-soliciting IFIs. Yet, this very argument leads us to the second conflict of interests, which is between domestic actors.

Both perceptions of borrowing governments—as economically-shortsighted or reformists with tied hands—reflect a monolithic view of state. In reality, governments are composed of different groups with different political and economic interests. Similar to the work of carrying out other decisions and policies, the implementation of a financial agreement results from the interaction between these groups. Of course, these groups hold unequal levels of political power, defined as the ability to influence the policy outcome, and cannot be the sole determinants of the selected compliance level. In addition to other factors, exogenous shocks, economic capacity, and elections may also affect compliance. Yet, at any given time, each of these factors burdens clients of the Fund. Otherwise, they would not be at the Fund’s door for assistance. If these factors are communicated by country representatives, IMF programs can be tailored accordingly. Among these issues, heterogeneity of interests between econocrats and politicians remains as the most understudied one.

In fact, the IMF itself somewhat recognizes the conflict of interests in domestic politics by establishing its principle of conditionality along with “program ownership”. The ownership concept as a mechanism of compliance simply suggests a commonality of interests (Kahler 1993). Conditionality, on the other hand, is defined as an “explicit link between the approval or continuation of the IMF’s financing and implementation of certain specific aspects of the government’s policy program” (IMF 2002a). Why would one need conditionality in the presence of ownership as the Fund documents suggest?

It is apparent that program ownership is unattainable at the collective level. In other words, ownership by some policymakers does not automatically translate into ownership by
the “policy-making apparatus” (Drazen 2006, 51). Hence, conditionality may play a role even when only some members of the government “own” the program.

Who are these actors that matter with regard to economic policy-making and the implementation of financial agreements? Are there any distinguishable patterns for the identities and preferences of these actors that would enable us to generalize the above-mentioned theories? To answer these question, I turn to the literature on delegation.

2.3 Domestic Politics and Delegation

Bureaucratic delegation is part of a larger literature which has its roots in agency models in economics. The main issue of interest in agency theory is the potential problem of control between a “principal” and an “agent” to whom principal delegates some of his powers. At the heart of this potential problem lie two issues: (1) the divergence of interests between the two; and (2) the information asymmetries that favor the agent (Berhold 1971, Ross 1973, Kiser 1999). This approach has since been criticized by several scholars for analyzing organizations without regard for institutional structure (Bac 1996).

In political economy, this theory is widely used to draw attention to the tension between elected politicians (principals) and appointed bureaucrats (agents). In his influential work, Niskanen (1971) differentiates bureaucratic interests from their appetite for budget maximization, and argues that bureaucrats may lobby to increase their institutional budgets even at the expense of politicians’ interests. Niskanen explains bureaucrats’ ability to expand their budgets and get away with policy deviation with their informational advantage. Following Niskanen, Rose-Ackerman (1978) focuses on corruption by emphasizing organizational structure and the influence of third parties. She insists that agency theory in economics cannot fully capture the strategic relationship between politicians and bureaucrats. According
to Rose-Ackerman, bureaucrats may have incentives other than budget maximization.

Contemporary political science literature builds on Niskanen and Rose-Ackerman, but mostly in the context of American politics. Considering the potential heterogeneity of interests and the informational asymmetry mentioned in the PA literature, some scholars have concluded that bureaucracy cannot be controlled by elected officials (Niskanen 1971, Allison 1971, Dodd & Schott 1979). Still others argue for the possibility of control through certain mechanisms (Mayhew 1974, Arnold 1979, Moe 1985). With bureaucratic deviation regarded as the main problem, political scientists focus on the mechanisms of monitoring (Hammond & Knott 1996, Shipan 2004). Yet, major findings demonstrate that politicians rarely monitor bureaucrats directly. Instead, they use indirect mechanisms of oversight, such as the threat of sanctions, third-party “fire alarm” monitoring, (McCubbins & Schwartz 1984, Hopenhayn & Lohmann 1996) as well as the appointment process itself (Calvert, McCubbins & Weingast 1989).

According to the “ally principle,” principals make strategic appointments and choose procedures that will give an agency an expected ideal point identical to his own (Bawn 1995). In other words, a principal delegates to a “clone” of himself to prevent agency drift. This approach to delegation considers agency preferences as endogenous, a function of procedural choices made by the principal (McCubbins, Noll & Weingast 1987, McCubbins, Noll & Weingast 1989). Yet, strategic appointment works only under certain conditions. Bawn (1995) argues that the degree of the principal’s control will still vary depending on the political environment and the technical features of the policy area. Considering the multiple actors in domestic politics (the executive, the legislature, and interest groups), the principal rarely enjoys unlimited appointment power. Hence, the relative policy preferences of these actors (e.g. Senate and President in the American context) and the reversionary point itself determine how the appointment process will affect delegation (Chang 2001). In addition, Bendor, Glazer, and Hammond (2001, 259) emphasize that the violation of the
ally principle occurs when problems of credible commitment arise between the principal and his constituents. As will become clear further in this dissertation, monetary policy is one area in which the principal may be better off with appointees whose preferences are in fact distinct from his own (Bertelli & Feldmann 2007).

Though elaborate, the literature on procedural design, oversight mechanisms and strategic appointments leaves some of the most crucial questions unanswered. To begin with, they do not travel far because of their framework happens to be very squarely centered on American politics.\textsuperscript{38} In addition, they do not consider exactly how the implementation process is influenced by the information asymmetry between principals and agents. Agents are assumed to act on one set of incentives, either budget maximization or self-interest. Sanctions are considered as a way to keep bureaucrats from drifting, but the functioning mechanism of these sanctions, namely career incentives of bureaucrats, is neglected for the most part. Bureaucrats are not considered to be policymakers, but as “passive lazy, and calculative” (Wood 1988, 791).\textsuperscript{39}

In comparative politics, delegation is a relatively new subject area. Following the credible commitment argument made for monetary policy, comparativists have predominantly focused on the positive impact of delegation to independent central banks. Their empirical findings show that choosing a conservative central banker rather than an ally help politicians make credible commitments and control inflation, albeit only in developed countries (Keefer & Stasavage 1998, Franzese 1999, Leblang & Bernhard 2000). Game-theory studies on this subject focus on the appointment process as well (Chappell, Havrilesky & McGregor 1993). Waller (1992), for example, uses a two-party framework to determine the conditions under which a moderate or less partisan central banker is appointed. The timing of the appointment and duration of the central banker’s term relative to the politician’s both

\textsuperscript{38}For an exception, see Huber and Lupia (2001).
\textsuperscript{39}For an exception, see Alesina and Tabellini (2007, 2008). Alesina and Tabellini consider both politicians and bureaucrats as equivalent policymakers with unique abilities and, thus, suitable for different tasks.
prove significant. Accordingly, the earlier appointments of a politician will be more partisan. However, it is important to note that terms of central bankers that are longer than political ones will produce moderate appointees. Similar to those in the larger delegation literature, these studies often take the American presidential system as their model and ignore the possible “outside-in” influences from IOs on the appointment process.

When shifting to consider international relations, delegation is considered in terms of its effects on cooperation. Martin (2000), for instance, emphasizes the “credibility” factor that delegation carries. She argues that a domestic constraint may increase the efficiency of international cooperation through the implementation phase. Accordingly, “institutionalized legislative participation in international cooperation leads to greater credibility of international commitments,” hence, more efficient cooperation (Martin 2000, 49). In other words, a domestic heterogeneity of interests and delegation may produce counterintuitively high levels of compliance. Going beyond the effects of delegation on international cooperation, Pahre (1997, 2004) evaluates oversight mechanisms and the conditions under which such mechanisms are established. Models in these studies prove that domestic actors can influence international bargaining not just through ratification or as constraints tying negotiators’ hands, but also through procedural actors and different institutional settings.

Apart from its effects and mechanisms, delegation is examined in terms of its sources and also in terms of the “democratic deficit” it creates in economic policy-making (Nye 2001, McNamara 2002, Gilardi 2002, Elgie 2002). Recently, principal-agent relations became a topic of international organizations (Moravcsik 2000, Hawkins, Lake, Nielson & Tierney 2006b). Naturally, these studies consider international organizations as agents of nation-states, and focus on issues such as multiple principals (Nielson & Tierney 2003). Gould (2006) finds that principals of the IMF are not always able to perfectly control the organization’s decisions, especially ones on the number and type of conditions.40 The relationship between

40For recent examples of principal-agent approach to international organizations, see Brown (2010), Elsig (2010), and Grigorescu (2010).
international organizations and the domestic principal-agent structure, however, has not yet been fully investigated.

From a more general perspective, domestic institutions, especially in a democratic system, are assumed to have adverse effects on the prospects for international cooperation (Remmer 1998). The normative principles of dialogue and compromise between societal groups with diverse interests are translated into institutions of checks and balances in democracies. While healing domestic tensions, these institutions may hamper efforts to carve out a viable bargaining space with foreign partners. Even when an agreement is signed and ratified, a divided polity may undermine implementation by increasing transaction costs for compliance (i.e. patronage) or by explicitly blocking policy adjustment. These reactions may become more prominent, especially if the formal ratification stage is bypassed, as in the case of loan agreements.

In their IMF working paper, Fabrizio and Mody (2006) emphasize this democratic dilemma once again in the context of electoral rules and their impact on political and fiscal discipline. As domestic institutions become more representative of the societal structures they are built on, they also run into a higher risk of reflecting societal divisions onto redistributive processes and creating budget deficits (Persson & Tabellini 2004).

The structure of democratic governments obviously poses some complications to efficient economic policy-making, nevertheless, it is difficult to conclude that the overall effect of domestic institutions on international cooperation is detrimental. The very characteristics of democracies that induce these problems may also contribute to their resolution. In other words, what is distorted by some domestic institutions (i.e. representative bodies and veto players) may be repaired through delegation to other domestic institutions that are based more on tasks and practicalities.

Fabrizio and Mody (2006) find that the checks and balances introduced by budget
institutions (either centralized as delegation to econocrats or decentralized in the form of negotiations and multi-annual fiscal targets) may help cope with the consequences of political indiscipline. More specifically, the checks and balances exercised by strong finance ministers (Hallerberg & von Hagen 1999) or independent central banks (Franzese 1999) help “shift the weight of decisions toward the common good and away from the disparate interests of politicians” (Fabrizio & Mody 2006, 10). Democratic structure is exactly what enables such delegation to econocrats. Hence, domestic institutions often have both positive and negative impact on economic performance, and, more generally, on international cooperation.

The topic of delegation, then, has only recently begun to attract increased attention in the field of international relations. Even so, it is rarely considered in the context of outside-in effects of international organizations. The vast literature on American politics concurs with the conditional nature of the principal’s influence over the appointment process and control over an agency’s policy decisions. Accordingly, the actual choice of policy reflect the preferences of politicians rather than those of bureaucrats, as long as the politicians are not constrained in their control mechanisms by outside actors, the technicality of the policy, and the positions of actors vis-à-vis each other and the status quo (Nokken & Sala 2000, Bendor & Meirowitz 2004, McCarty 2004, Shipan 2004, Bertelli & Feldmann 2007).

Economic, especially monetary, policy-making is a highly technical field for which the above-mentioned authors expect to see agency drift. Moreover, it is a policy field that is open to outside-in influences, specifically from international organizations such as the IMF. Nevertheless, scholars of international relations have not focused directly on the subject of domestic agency drift and its effects on international cooperation. This thesis examines under what conditions delegation to econocrats improves or hinders the likelihood of compliance with international agreements. Assuming that econocrats have shared interests both with politicians and the IMF, three main factors are investigated to determine with which side the econocrats might align.
2.3.1 Bureaucratic Aspects of Implementation

The literature on delegation helps us focus on two key traits of domestic actors that determine their ability to influence policy implementation: preferences and capacity. The first one refers to the internal processes through which an actor’s incentives and, ultimately, their interests are formed. To influence policy, having a position on that dimension is necessary, but not sufficient. Any domestic actor’s capacity to influence policy depends on its autonomy or independence. The more autonomous an agency, the less its decisions are made in advance by the principal (Bawn 1995). As expected, agency independence is never absolute: it is contingent and depends on the interactions between actors (Hammond & Knott 1996).

The next section reviews three aspects that may influence the preferences and capacity of econocrats: ambition, socialization, and autonomy. These aspects will be useful for building a bottom-up theory of implementation by providing moving parts.

Ambition

One important factor that may influence the policy preferences of an econocrat is his career path. In accordance with their country’s position and political traditions, civil servants who climb to top-level positions in finance ministries, central banks, departments of treasury and economic planning may find several options for their future careers. Some may take lucrative positions in the financial sector, others may transfer to politics or work in international organizations.

Christopher Adolph (2004) focuses on the career aspirations of central bankers in industrialized countries and finds a strong relationship between the backgrounds of central
bankers and their policy preferences. Adolph, however, does not consider the effects of this variation in career ambitions on either the implementation of international financial agreements or incorporating the Fund as another “principal” into the equation. Arguably, the career ambitions of econocrats are determined by both their educational and social backgrounds, as well as contextual factors. If a country’s political arena opens its doors to former bureaucrats, those bureaucrats –expecting this– may more-readily align themselves with the government on compliance-related issues.

Ramseyer and Rosenbluth (1993) argue that Japanese bureaucrats are more likely to enter into politics after their resignation. This is one of the ways through which the Liberal Democratic Party (LDP) in Japan has ensured bureaucratic responsiveness. In fact, Ramseyer and Rosenbluth’s analysis shows us a textbook example of the conditions under which recommendations of the PA theory work. Due to the LDP’s prolonged rule, the absence of strong opposition, and the lack of international influence as factors that shape the expectations of Japanese bureaucrats, conflicts between bureaucrats and politicians often end in favor of the latter group. Hence, Japan constitutes a peculiar case in which bureaucrats have well-established expectations about what LDP leaders want and how to realize their own career goals. Without any exploitable policy space between the government and the legislature or any outside pressure (e.g. from IFIs) to change their preference scheme, Japanese bureaucrats have no choice, but to be responsive to their principals.\footnote{Ramseyer and Rosenbluth (1993) also argue that politicians hold bureaucrats' future careers hostage by intentionally limiting their income during their time in office (namely “post bonds”). However, this mechanism depends on how risk-averse those bureaucrats are and how much they may discount future gains.}

On the other hand, econocrats with little or no prospects for becoming active politicians after retirement may consider careers in the private financial sector or IFIs as viable alternatives. In such cases, econocrats pay greater heed to their reputation as conservative experts and attempt to distance themselves from the agenda of politicians while in office.
Socialization

Constructivist theory emphasizes socialization as one of the mechanisms through which international actors may influence the beliefs and, ultimately, the preferences of domestic actors. Several studies outline the two main steps in this mechanism: actors may first abide by the norms of the larger group to “fit in” or, through a process of strategic calculation and role playing, continue by following a normative suasion or genuine adoption of the group interests (and even the identity) (Checkel 2005, Johnston 2003).

The main problem with this approach is that these studies cannot claim an unconditioned, automatic change from the first phase to the second. Moreover, there is no indication or test to determine whether or not a genuine shift in beliefs actually occurs, as opposed to perpetual role playing. In addition, case studies depict that only certain conditions of socialization may have a distinguishable impact. Even in such cases, the impact remains limited. Gheicu (2005), for instance, argues that NATO’s socialization of Czech and Romanian military officials has shaped their worldviews by introducing them to the liberal-democratic norms of the post-Cold War period. However, she also notes that this influence might not have been possible without recognition of the “teacher-student” roles played by all parties, identification of the socializees with the Western community, and systematic interactions between the parties.

Similarly, Kelley (2004) uses socialization as one of two mechanisms through which IOs have facilitated change in policies on minorities of post-Communist countries like Latvia, Slovakia and Estonia. She also points out the limited effectiveness of this mechanism on its own. She argues that socialization may have an effect on state behavior only when accompanied with membership conditionality (i.e. providing tangible incentives, in this case by the European Union).
Building on these caveats, socialization appears to be a more productive mechanism in the context of IFIs. To begin with, I do not assume that IMF officials are capable of completely changing the identity of econocrats. Because of the level of education and expertise required for these positions—either at the domestic or international level—IMF officials and econocrats already share a common understanding of what constitutes social and economic welfare, as well as how to achieve it. Hence, persuasion or a gradual shift in policy preferences are more plausible arguments.

Adler and Haas (1992) explore this effect in “epistemic communities” and argue that in these small expert groups, abstract ideas can be pushed into the policy agenda of domestic actors. For socialization to take place, then, there should first be an “epistemic community” with shared interests and a common understanding. The IMF, a formal organization with the physical means of continuity (budget, centralization, and organizational structure), provides such an environment to macroeconomists. In fact, technocrats responsible for macroeconomic and budgetary oversight in finance ministries or central banks spend the early years of their careers as staff members of international financial institutions (Kapstein 1992).

Barnett and Finnemore (2004) suggest that the Fund constructs this image of economic expertise and impartiality to gain legitimacy for its mission and retain autonomous control against powerful member countries. Momani’s study of IMF recruitment policies (2005) shows that despite efforts to introduce diversity to the staff, the essential structure remains the same: mostly male recruits (though from different countries) with doctoral degrees overwhelmingly from Western institutions. The Fund explains the dominance of male PhDs by the demand from client countries. Accordingly, econocrats (again mostly male PhDs) of borrower countries interact better with IMF officials who they can better identify with—be it on gendered grounds, country of origin, or otherwise. Evidently, socialization does not necessarily begin at the behest of the international actors, but rather with “demand” from domestic actors. Momani points out that efforts to diversify IMF staff have
focused on recruiting from universities outside Europe and the United States (Momani 2005, 180). However, as long as these recruits come from institutions following a neoclassical economics curriculum and are indoctrinated through Fund-sponsored seminars, is this really diversification?

Returning to the “epistemic community” argument, the IMF is a bureaucratic organization with a shared belief on the causes of economic crises, as well as the remedies for resolving these crises. Therefore, efforts to diversify Fund staff seems little more than a half-hearted attempt to satisfy criticisms of the IMF’s structure. The Fund, in contrast, views its homogeneous structure as absolutely necessary and a result of shared knowledge on economic adjustment through monetarist mechanisms.

Based on this conclusion, IMF officials are expected to promote this unitary understanding in borrowing countries. Depending on the level of shared educational background and past experience with the IMF, econocrats may be more susceptible to the Fund’s understanding. As a result, they might point out problems with the implementation of IMF conditions more openly and align more staunchly with the Fund.

**Autonomy**

Although policy preferences of econocrats may overlap with those of IMF officials, compliance ultimately depends on the autonomy or discretionary power held by econocrats. Autonomy is defined as “the range of potential independent action available to an agent after the principal has established mechanisms of control” (Hawkins, Lake, Nielson & Tierney 2006a, 7). According to PA theory, agents are designed by principals, and their independent

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42Hawkins et al. (2006a, 7) differentiate agency slack and autonomy by stating that autonomy is the range of available actions for the agents that can be used to undermine or support the principal. On the other hand, agency slack refers to actual behavior that is undesired by the principal. I will use autonomy rather than agency slack because it is a broader concept that takes into account the possibility of collaboration between the bureaucrats and politicians.
influence, if any, is assumed to be detrimental. Because bureaucrats are not similarly accountable to the public as politicians are, their decisions may bypass the system of checks and balances, and, more importantly, may not reflect people’s will.

Hammond and Knott (1996, 121) investigate the conditions under which an agency would be autonomous. According to their review, an agency gains autonomy in three ways: (1) indifference of principals to the policy domain (Wilson 1980); (2) information asymmetries between the principal and agent (Moe 1984); and, (3) conflicts among multiple principals. When economic policy-making is considered, the first of these sources seems implausible. Politicians must care about the perceived successes or failures of their economic policies as subsequent electoral success usually depends on the effects of these policies on the welfare of the electorate. However, politicians have no choice but to delegate discretionary power, especially in times of high uncertainty and when specialized knowledge and flexibility are needed most (Hawkins et al. 2006a, 32). Discretionary power given to the agent is determined by the principal’s policy goals, but leaves the specific set of actions necessary to reach those goals in the hands of the agent. Because economic policy-making requires high levels of specialization and the ability to make decisions in periods of relative uncertainty, politicians usually grant institutional autonomy to econocrats. Hence, information asymmetries seem to be the main source of bureaucratic autonomy when economic policies are considered. Another source is the existence of multiple principals. As mentioned before, this aspect of domestic politics may influence the appointment process. By taking interest groups, veto players, and the demands of external actors, such as the IMF, into account, executives may be better suited by granting autonomy to econocrats whose ideal policies are distant from their own. By appointing career bureaucrats instead of their allies to au-

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43 For example, see Niskanen (1971) for the expansionary effects of bureaucracy on the budget.

44 Politicians might also delegate their decision-making power in order to avoid the time inconsistency problem (Rogoff 1985). Though delegation helps politicians make credible commitments (see Bernhard et al. 2002), this does not mean that politicians will refrain from attempts to influence the decisions of autonomous agencies.

45 Nokken and Sala (2000) go so far as to argue that if a president seeks a rapid change in policy, it may actually be to his benefit to prefer career bureaucrats who are likely to be ideologically opposed to his

Autonomy may entail financial independence, longer terms and rules about job security. As autonomy increases, econocrats tend to worry less about keeping their positions, and are more preoccupied with the policy decisions they make. Institutional autonomy may increase formally through legal change or informally due to the economic situation and/or a conflict of interests in the political system. Formal change in autonomy occurs infrequently. Informal changes, on the other hand, may occur depending on the domestic status quo.

Majority governments, for example, may have an adverse effect on compliance. Occupying more entrenched positions of political power, these majority governments are less vulnerable to opposition and may then choose bureaucrats who share similar policy preferences. In contrast, coalition and minority governments may increase the bargaining power of bureaucrats by presenting an opportunity for them to play political parties or factions against each other. Whether or not this increase in bargaining power and, ultimately, autonomy translates into higher levels of compliance depends on other factors, including ambition, socialization, and the government’s preferences.

Most importantly, the IMF does not represent a passive player in such cases. The Fund, acutely aware of the value of econocrats, pursues an active policy of increasing the number of autonomous agencies in client countries, as well as strengthening those already in existence. For example, it was the IMF that insisted on the establishment of the Turkish Banking Regulation and Supervision Agency (BRSA). Moreover, in December 2003, Tom Dawson,  

interests. Because adverse or no agency drift results in “rapid convergence on a ‘dynamic’ policy equilibrium” (Nokken & Sala 2000, 92).

the IMF’s External Relations Director, warned Turkey about the government’s attempts to undermine independent bureaucratic agencies and slow the progress of the economic reforms. Delays in the review process and the introduction of new conditions followed these warnings.

Hawkins and Jacoby (2006) argue that as agencies become permeable to third parties, their autonomy may increase. In a similar fashion, Gould emphasizes that “third-party actors, not only formal principals, may be able to manipulate agent incentives and thus agent activity” (Gould 2006, 456). In short, IMF involvement may pose yet another reason for an increase in the autonomy of econocrats. However, this influence may improve compliance records or cause further problems, if politicians attempt to block the increased autonomy of econocrats.

2.4 Discussion

The implementation of international financial agreements stands at the intersection of three different fields. In order to build upon their respective contributions and rectify any potential gaps, it is necessary to review the relevant literatures of each. Given the decades worth of work each of these research agendas is comprised of, I focus on the representative works in each. Table 2.11 summarizes the foundation upon which an actor-centric, bottom-up theory of implementation will be constructed.

In this chapter, the systematic review used to evaluate the diverse IMF literature suggests an increase in scholarly attention on the implementation stage. This attention stems from the fact that earlier studies on the design and effects of IMF programs remain inconclusive as to the actual merits of strong international organization such as the Fund –do

\footnote{See IMF’s Dawson: Don’t undermine banking watchdog’s independence.}
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they, for instance, cause more harm than good? Recent studies by Woods (2006a), Arpac, Mandilaras, and Bird (2006), Calvo-Gonzalez (2007) and Lombardi and Woods (2008) look for answers in domestic politics, especially domestic actors who influence the implementation stage. This contribution to the literature paves the way for the next step: investigating the role of strategic interaction between domestic actors at the implementation stage. So far, only a few studies have focused on this issue and even fewer incorporated a multi-methodological approach. Using quantitative and qualitative methods together will be crucial to capturing the different aspects of this research agenda, as well as pinpointing the causal mechanisms of the domestic implementation process.

The ultimate goal of this analysis is to contribute to the cooperation literature. This field focuses mostly on consequence- and process-based explanations of (non-) compliance. Many of these studies adhere to the unitary actor assumption and consider compliance as a dichotomous concept. The two-level games subfield, on the other hand, relaxes the unitary actor assumption, links domestic and international bargaining stages of cooperation, and takes into account the strategic interaction between actors with heterogenous interests (Putnam 1988, Evans, Jacobson & Putnam 1993, Mo 1995, Pahre 1997, Tarar 2001). Translating this interactive approach at the implementation stage requires us to consider compliance as a process involving actors with different policy preferences. The following chapter will implement a family of formal models to examine the strategic interaction between these
actors.

In this modeling effort, I will take up the guidance provided by the delegation literature. Studies in this vast field emphasize the importance of policy positions, the reversion point, and the level of autonomy in determining how delegation affects policy outcomes. However, in international relations, these lessons are used to examine international organizations as agencies. The next chapter will instead apply these lessons to the domestic delegation by considering the IMF as an external constraint. As such, it will be a unique attempt in connecting the domestic and international domains of politics.
Chapter 3

An Actor-Centric Theory of Implementation

The literature review in Chapter 2 reveals both the strengths and weaknesses of our cumulative knowledge on international financial cooperation. On the one hand, a rich reservoir of case studies depicts a detailed picture of how IMF programs are conceptualized, put into practice, as well as reasons for their delay, failure, or success. In addition, recent developments in data availability have enabled further investigation of these findings in large-n studies. On the other hand, only a few of these studies place implementation at the center of their study. Still fewer use formal theory as a foundation for their empirical analyses (Edwards 2001).

Modeling exercises in this chapter will focus on two important, albeit rarely examined elements of the implementation process: 1) domestic actors who negotiate and implement the Fund’s conditions; and, 2) the interdependence of the bargaining and implementation stages of international financial agreements. Weaving together the conflict of interests between domestic actors across pre- and post-agreement stages serves two purposes. Theoretically, it will vividly illustrates the “outside-in” effects of international organizations. The IMF employs not only a direct strategy of offering incentives, but also establishes alliances with domestic actors whose policy preferences coincide with those of the Fund. Empirically, drawing out the link between bargaining and implementation through actors common to both phases can serve as a precursor to predicting the likelihood of compliance and the

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49 Steinward and Stone (2008) consider these two stages together by examining the issue of number and strictness of conditions.
actual effects of IMF prescriptions.

Contrary to conventional understandings of IMF programming, the governments of borrowing countries do not negotiate with the IMF and implement its prescriptions as unitary, monolithic actors. The Fund’s programs include policy measures that address immediate balance-of-payments problems, as well as structural obstacles to sustainable growth. These measures include efforts to contain inflation and public debt, encourage price and trade liberalization, prevent currency overvaluation, employ monetary and fiscal restraints, and promote institutional reforms (IMF 2004, 23). Most of these reforms involve the participation of econocrats, experts who attend negotiations with the Fund and later implement the agreed terms. These bureaucrats are also involved in the highest decision-making body of the IMF, namely the Board of Governors.

By leaving out the role of bureaucrats at the implementation stage, the literature exaggerates the decision to cooperate and fails to capture how cooperation, or “mutual policy adjustment,” actually occurs (Keohane 1984). To address this gap, this study focuses on policy adjustments made or halted by bureaucrats. I argue that variations in compliance with IMF conditions (i.e. policy adjustments) can be explained by disparities in the policy preferences of econocrats (Adolph 2004).

This chapter incorporates domestic conflicts of interest into IMF scholarship by using a family of models. This approach enables us to isolate the different strands of the relationship between domestic and international actors, and get a clearer and more accurate picture of how these factors affect cooperation.

The family of models is comprised of five models total. In the first, using two spatial models of macroeconomic policy-making, I will focus on how IMF involvement affects the domestic policy space. Without any external influence, the extent of an econocrat’s discretionary power depends on the veto players involved and their relative policy preferences.
Even for “powerful” econocrats, agency slack is insignificant.\textsuperscript{50} With the Fund entering the picture as an informal principal, an econocrat’s discretion expands to include agenda-setting powers. For this reason, some econocrats with limited power may actually prefer IMF involvement.

Next, a finite game of incomplete information will be used to capture the effects of an econocrat’s preferences over program implementation. This bargaining model will illustrate how the variation in econocrats’ preferences shape IMF agreements, namely regarding its strictness, the number of conditions, the availability of waivers, and, ultimately, the level of implementation.

These three models assume a “powerful” econocrat: a relatively independent bureaucrat who is able to resist political pressure or at least sound the fire alarms in case of deliberate defection. The fourth model, however, assumes a “weak” econocrat and explores her influence on implementation. To this end, a game of cheap talk between politicians and “weak” econocrats is constructed. A conservative, “weak” econocrat may prefer to misrepresent the severity of economic conditions, using her informational advantage, and influence the bargaining process with the Fund; thus, indirectly tying the hands of politicians involved in negotiations.

The last model combines inferences from the other four and constructs a typology of econocrats’ preferences with regard to expected implementation levels. Accordingly, it is easier for the Fund to bargain with conservative econocrats with career ambitions in international bureaucracy and/or the private finance sector. In return, programs with these econocrats are more likely to be implemented in full. On the other hand, this model also reveals that any desired policy outcome is attainable by offering the right career incentives.

\textsuperscript{50}An econocrat’s status as “powerful” is defined by her ability to promote policies in alignment with her ideal point from among a set of equilibrium policies determined by the preferences of veto players. In contrast, a “weak” agent is often compelled to go along with her principal’s ideal policy. See Hammond and Knott (1996), Hammond (2003), Kim (2007).
Therefore, even independent econocrats without conservative policy preferences can be persuaded by politicians to step outside of program boundaries.

In sharp contrast to the vast number of empirical studies on the IMF, theoretical research on the topic remains underdeveloped. This lacuna results from the general accessibility of macroeconomic data on IMF agreements, as well as the difficulty in studying domestic-international relations formally. In order to develop a stronger theoretical foundation in the field, this chapter introduces a family of models, with each model teasing out a particular building block. The last section in this chapter will list the hypotheses derived from these models and discuss the implications of each.

### 3.1 IMF Conditionality:

Changing the Domestic Game

In the absence of an outside player like the Fund, theories of domestic decision-making suggest that macroeconomic policies will be formed by the status quo, institutions and the preferences of the actors, such as veto players. Veto players in these theories refer to actors able to significantly influence policy outcomes by accepting or blocking proposals. Bureaucrats are rarely included within this category because of the hierarchical nature of their relations with politicians.

As described in Chapter 2, politicians often delegate their decision-making power on economic policies to subvert the problem of time inconsistency. Delegation, however, does not prevent politicians from influencing policy through their powers of appointment (Lohmann 1997). Whether or not the issue of job safety is a credible threat for bureaucrats

depends on their specific policy area, as well as the level of autonomy of the respective bureaucratic institution.

Compared to other bureaucratic agencies, those specializing on economic issues are relatively “powerful” when it comes to resisting the pull of politicians. This discretionary power is a demonstration of the agency’s autonomy by selecting a policy from among a set of policies determined by the preferences of politicians (Hammond 2003, Kim 2007). In contrast, a “weak” agency lacks such autonomy and acts according to the will of the politicians.

This discretionary power originates from two sources. The principal-agent literature emphasizes agency expertise and the complexity of policy area as sources of delegation (Moe 1984). Bureaucrats of economic policy enjoy asymmetric information on their country’s economic condition and are thus able to influence a politician’s knowledge of the implementation process. The literature also emphasizes that politicians are more likely to delegate a task that is highly technical and complex. It is also the case that they are less likely to monitor bureaucrats because of the transaction costs.

Secondly, the career ambitions of a bureaucrat may constitute a source of discretionary power. For example, conservative central bankers, whose career ambitions lie with international organizations or private firms, may use their resistance to the expansionary demands of politicians as a signal of credibility for future employers (Adolph 2004, Göhlmann & Vaubel 2007). If the politician expects such bureaucratic opposition or a public expression of objection, he may decide not to set policy at the expansionary end of the spectrum and away from bureaucrat’s ideal point. In this way, a bureaucrat’s policy preferences can demonstrate her type as “powerful.”

Both “powerful” and “weak” bureaucrats are bound by the decision-making process in domestic politics. Bureaucratic influence is limited (albeit more so for “weak” econocrats
than “powerful” ones) because the macroeconomic policy agenda is set by the chief executive, without IMF interference. The following section treats this limited nature of bureaucratic discretion without any “outside-in” effects. Next, I will focus on the ways in which the Fund may alter the domestic game.

For the spatial models in this section, economic bureaucracy will be considered “powerful,” or enjoying a high level of autonomy, as previously stated. This treatment overstates the actual capabilities of bureaucracy to accentuate the contrast between the domestic situation prior to and after IMF involvement.

When an IMF agreement is signed, both the policy-making structure and the procedures shift while also adding a new actor and a new dimension to the game. Without the IMF, parties bargain over policy alone. As loans from the Fund arrive, another dimension emerges: the distribution of funds. The preferences of actors on policy and loans vary according to their particular interests.

In addition to adding an actor, IMF involvement makes others obsolete. The legislature’s role, for instance, is curbed compared to the situation sans-IMF because these agreements do not require ratification. Instead, they pressure clients to create a sense of domestic program ownership. It is also arguable that due to its conditionality principle, the IMF acts as an informal ratification actor, pulling economic policy towards its own ideal point. By doing so, the IMF may also increase the influence of conservative econocrats.

The Fund’s support for conservative policies and its ability to review the government’s performance empower like-minded econocrats. Ongoing negotiations offer them a platform to express their arguments and gain public visibility. In addition, these negotiations open another role for econocrats: as their nation’s representatives in negotiations with the IMF. This strengthens the behavioral independence of econocrats greatly, which provides a basis for our assumption of a “powerful” bureaucrat.
Studying these effects of IMF involvement demands a two-dimensional model.

Comparative statics show that without the IMF, a conservative econocrat is not as influential as a moderate one whose ideal point lies between those of the executive and the legislature. IMF involvement ultimately restricts macroeconomic decision-making to the contract curve between the preferred points of the Fund and the executive. To appease the Fund, the Chief Executive (executive here after) may sign an agreement, without actually intending to implement it, and defect to a point that would not make the Fund worse off compared to the status quo (SQ). Yet, due to its complexity, the implementation of economic policies is delegated to experts, such as a conservative econocrat. She is then able to implement the terms of the IMF agreement as it was intended.

Whereas a conservative econocrat may become an obstacle to a myopic politician, a non-conservative may serve as a valuable asset for him. Would a politician anticipate these possibilities and make appointments that would suit his own interests? Executives are constrained by the structure of negotiations with the IMF and the complexity of the issue. Though other international agreements clearly demarcate the different roles of negotiators and implementers, econocrats play both roles. A politician’s incentive to appoint a non-conservative econocrat is thus constrained by the desire to choose a competent negotiator. Muthoo (1999, 230-232) argues that appointment of a negotiator with identical preferences as the other party’s representative constitutes a Nash equilibrium. Extending this result to negotiations with the IMF, developing countries with vast borrowing experience may be better served by appointing central bankers or treasurers with preferences similar to those of Fund officials.\footnote{Appointment and delegation as tactics to influence international bargaining are matters beyond the scope of this study. However, they are important research questions that have to be addressed thoroughly in the context of IMF bargaining. For an example outside the current IMF literature, see Pahre (1997).} In addition, the nature of macroeconomic policies deems it necessary to appoint experts to bureaucratic positions. While the expertise of econocrats is common knowledge, their preferences on implementation may not be so obvious ex ante, which may
give rise to a conflict of interests between econocrats and politicians on matters of implementation. These disagreements may surface after agreements have been finalized and result in the econocrat’s premature dismissal.

The next section introduces the domestic game through which economic policy-making is produced without IMF conditionality. This initial exploration constitutes the base with which I will compare the procedure after IMF involvement begins.

3.1.1 Economic Policy-Making: Domestic Game

The implementation of international agreements entails a shift in domestic policy status quo, which is coordinated with participation of foreign actors. To explore the size and direction of this adjustment, I must first assess the state of economic policy-making prior to the signing of an international agreement.

The first step in our analysis will be to provide brief examples of the strategic interactions at work within domestic politics. I will focus on two settings in which a bureaucrat is more conservative than the legislature. This section will illustrate the limited discretionary authority of conservative econocrats over macroeconomic policies. Even the “powerful” econocrat is constrained by the procedures that ultimately favor the executive as the main agenda-setter. Econocrats are most effective in steering policy towards their conservative position only when the status quo is sufficiently distant from the core. Yet, even in such cases, their pull is quite insignificant. Upon its involvement, the Fund begins to function as a principal with the power to amend agreements—curbing the legislature’s role in a sense. This change in the structure of domestic policy-making inadvertently grants the bureaucracy more leeway by making them both agenda-setters and as parties to the loan negotiations.
Decision-making procedures in domestic politics vary significantly. For the purposes of simplicity and generalizability, I will begin with a one-dimensional model and add the second dimension based on IMF involvement.

Alesina and Perotti (1996) identify three phases in budget processes that can be generalized into a diagram of macroeconomic policy-making:

- policy formulation by the executive;
- approval of the policy in the legislature; and
- policy implementation by the bureaucracy.

Assume that these are the three players of the domestic game: Chief Executive ($E$), Legislature ($L$), and Bureaucracy ($B$). The first two, $E$ and $L$, are veto players whose ideal points are denoted as $x_E$ and $x_L$ (or as $x_V$ when veto players mentioned together), and $B$ is an agency whose ideal point is denoted as $x_B$. Each player’s utility function is assumed to be single-peaked, depending on his or her most preferred policy in a one-dimensional policy space, $X = [0, 1] \in \mathbb{R}$.

\[ x_i : i \in \{E, L, B\} \text{ and } x_i \in \{x_E, x_L, x_B\} \]

This assumption suggests that the ideal points of all actors are located on a single policy dimension, upon which they base their bargaining. Substantially, this dimension may represent a budget proposal, trade policy or monetary and fiscal policy with endpoints in “expansionary” or “tight” policy extremes.\(^{53}\) On this line, the ideal or bliss points of actors ($x_i$) represent their most-preferred policy outcomes. As actual policy moves further away from an actor’s ideal point, his utility diminishes. In other words spatial theory assumes

\(^{53}\)In following figures, 0 indicates conservative economic policy and 1 indicates expansionary, non-conservative economic policy.
“monotonic decrease in a policy’s utility as a function of the distance from the actor’s ideal point” (Hammond & Prins 1999). In addition, actors are assumed to be symmetrically indifferent between equidistant points on either side of their ideal points.

This restriction on dimensionality increases the tractibility of the model without changing the central theoretical concepts in higher dimensions. In this regard, I follow others who acknowledge limits to the dimensionality assumption, but who still find some merit in the assumption.\(^{54}\)

In this setting, domestic bargaining over economic policy depends on the location of the status quo relative to the ideal points of the players and the distance between individual players. Due to the highly technical nature of economic policy-making, the Chief Executive takes on the role of agenda-setter, the Legislature functions as the ratifier, and the Bureaucrat as the implementer.\(^{55}\) Even though some macroeconomic policies do not require formal legislative ratification, major decisions still posit the legislature as an informal ratifier due to the far-reaching implications of these policies.

Where do these actors, E and L, stand in terms of macroeconomic policies? Much of the literature, inspired by studies of the United States Congress, emphasizes the difference in sources of interest between the executive and the legislative branches. The central argument in the vast majority of these studies is that legislators have geographically-concentrated constituencies as opposed to the broader, nation-wide constituency of a president or prime minister. Consequently, members of the legislature ask for more expansionary economic policies when it comes to their electorate. The Chief Executive, on the other hand, prefers a tighter plan to guarantee the support of the majority.\(^{56}\) Yet, this simple division is compli-

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\(^{54}\)For instance, Ferejohn and Shipan (1990), Mertha and Pahre (2005), Hammond and Prins (2006).

\(^{55}\)Some studies argue that technical ambiguity surrounding economic policies may be a strategic advantage for policy-makers who want to retain control of them. On the intentional nature of policy ambiguity, see Cukierman and Meltzer (1986), Rogoff (1990), Alesina and Cukierman (1990), and Alesina and Perotti (1996).

\(^{56}\)Alternatively, one could consider these divergent macroeconomic interests by replacing E with the Treasury or Ministry of Finance and L with one of the spending ministries. See Fiorina and Noll (1978), Chari
cated by the role of electoral cycles, overall economic conditions, and the leverage held by a majority government over the legislative branch in a parliamentary system.

Spatial modeling helps us sort through these different settings and identify the most interesting scenarios. For instance, the presence of a unified government, comprised of a majority or coalition government that controls the parliament, it would represent the convergence of E and L’s ideal points. The case would become a trivial one. Likewise, during times of major economic crisis or pre-election periods, a similar convergence of policy preferences may occur. When faced with these special cases, the policy outcome simply coincides with the shared ideal points of E and L, \( x^* = x_E = x_L \). I therefore focus only on non-trivial cases in which \( x_E \neq x_L \).

Spatial theory emphasizes the importance of the status quo or the reversion point against which new policies are compared by actors. With regard to macroeconomic policies, the status quo depends on the timing of the policy change and the procedural manner in which change occurs. For example, budget proposals are made annually and set by the same set of actors each year, except in the immediate aftermath of elections which bring in newly elected officials. Monetary policies, on the other hand, generally do not require formal legislative ratification, and the status quo is set closer to the agenda-setter E’s ideal point rather than L’s. In addition, policy-making procedures vary greatly from one country to another. In the Bahamas, for instance, parliamentary rejection of the budget proposal implies the government’s resignation (Alesina & Perotti 1996, 13). Arguably, the built-in cost of rejection favors the government in such cases and gives members of the parliament a strong incentive to ratify the budget. In other states, such as Brazil, rejection leads to preparation of a new proposal by the government. In still other cases, parliament holds the power to amend the budget proposal. Some systems, on the other hand, favor the agenda-setter by restraining the amendment powers of the legislature through closed rules (Baron et al. (1997), Alesina and Perotti (1996, 24).
As the primary aim of this chapter is to investigate international influence on domestic policy-making, forthcoming models will assume the simplest scenario:

- $E$ sets the agenda; $L$—assumed to be a single pivotal member of the legislative branch—accepts or rejects, and has no amendment power; $B$—The Finance Minister, Head of Treasury, or Central Bank Governor depending on the substantive nature of the x-axis—implements the policy.

- If the policy proposal is rejected by $L$, SQ prevails.$^{57}$

- Complete information is assumed. That is, players have complete information about each others’ preferences, policy-making procedure, and the location of the SQ.

- Bureaucrat can amend the policies to be implemented as long as $E$ is better off compared to the SQ.$^{58}$

- The costs of a political crisis or stalemate are higher than those of choosing slightly non-ideal policies for all players (crisis assumption).

As one’s utility depends on the proximity of the actual policy outcome to his or her ideal point, each actor has a set of points that he or she prefers to the SQ. These individual win-sets are labeled as $W_i$. An actor’s win-set is empty if and only if SQ is located at his ideal point ($W_i = \emptyset \iff x_i = SQ$).

Following Hammond and Prins (2006), I also incorporate the concept of core, which

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$^{57}$The criticism that domestic institutions involved in this process may be endogenous is a valid one. However, it is usually very costly to change policy-making institutions, especially those that attempt to distribute wealth. At one extreme, changing budgetary procedures necessitates constitutional reform. Therefore, most macroeconomic policy-making institutions can be considered exogenous.

$^{58}$This is a strong, but justified assumption that restricts a “powerful” econocrat’s autonomy. Econocrat is independent enough to select a specific policy point, but not to the extent that she disregards the politician’s preferences.
represents a range of policy points on the x-axis that cannot be changed by the joint action of the players, given their preferences. In other words, *core* will refer to the set of policies on the contract curve on which domestic bargaining takes place (Hammond & Prins 2006, 30). If the status quo lies within the core, then the joint win-set is empty. That is, each move will make one player worse off (case c in Figure 3.1). This situation constitutes a policy equilibrium: any policy alternative lying inside the core cannot be defeated by any joint action undertaken by E and L.

In addition to the SQ, the core is also shaped by the preferred-to sets of the players. The set of points that E prefers to L or points closer to E than L are labeled as \( W_E(L) \). Similarly, \( W_L(E) \) refers to points that L prefers to E. The set-union of these two sets of points, \( W_E(L) \cup W_L(E) \), denotes points that are either closer to E, or closer to L, or equidistant between them. If SQ lies outside of this joint win-set, then the core will include the whole line segment between E and L (cases a and e in Figure 3.1). However, if SQ lies outside the core, but within this set-union, then the bargaining between E and L will be constrained. In other words, there would be points within the core that can not be selected because SQ is either closer to E than to L, or closer to L than E, or equidistant between them (cases b and d in Figure 3.1).

I am interested in comparing the effects of IMF involvement on economic policy rather than determining any such equilibrium achieved at the international bargaining table. The more salient question for the purposes of this chapter is to investigate the conditions under which IMF involvement steers policy towards the econocrat. Thus, it is more relevant to show constraints on bureaucratic implementation than the specific bargaining solution.

Figure 3.1 shows the basic model in which E proposes a macroeconomic policy, and L approves or rejects this policy. This scenario neither assumes IMF involvement nor implementation by a bureaucratic agency. Cases a to e depict how the domestic core changes

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59 I employ Hammond and Prins’ (2006) diagrammatic style for the following figures.
as the status quo shifts. With the exception of case $c$, each case presents a possibility for policy change (disequilibrium). In case $c$, the intersection of two win-sets is empty, therefore no policy alternative exists (equilibrium). The set of possible policies is at its broadest when the status quo is at extremes, namely $SQ \notin (W_E(L) \cup W_L(E))$. As the status quo policy approaches either $E$ or $L$, that actor’s bargaining power increases. If I relax the ratification assumption, $E$ as the agenda-setter could easily choose a policy point closest to his own ideal point, even one slightly outside of the core because of the crisis assumption.

![Figure 3.1: Macroeconomic policy-making without delegation](image)

Unfortunately for the Executive, it is impossible to carry out the tasks of agenda-setting and implementation simultaneously, especially with regards to highly technical economic policies. This leads the Executive to delegate some of his power to the bureaucrat.
Figure 3.2 introduces $B$: an agency that chooses the specific policy to be implemented from $E$ and $L$’s joint win-set, which further attempts to maximize her own utility. Here I consider $B$ a “powerful” player. As discussed before, this assumption refers to $B$’s capacity to choose from a set of equilibrium points as opposed to following the exact preferences of her principal. This behavior can be explained by her asymmetric advantage in technical knowledge, expertise, and strategic importance in international negotiations. However, it is significant to note that even a seemingly “powerful” display of agency is constrained by the very structure of the domestic game. This will help to more starkly reveal how IMF involvement can disrupt this setting.

![Figure 3.2: Macroeconomic policy-making with delegation](image)

Figure 3.2: Macroeconomic policy-making with delegation, $x_B < x_E < x_L$

As the literature reviewed in Chapter 2 demonstrates, bureaucratic delegation may
result in a form of agency slack that may be difficult to restrain, given the conflicts of interests in domestic politics and the high costs associated with monitoring mechanisms. In other words, B’s role in implementation gives her a post-hoc amendment power; however, that power is constrained by her level of independence. In theory, if B demonstrates adequate financial and legal autonomy, she can direct the policy towards her own ideal point, a possibility that feeds into the fears of creating a “runaway agency” (McCubbins & Schwartz 1984). Yet, no bureaucracy enjoys such discretionary power—not even the most independent of central banks. Though these bureaucrats can shape policy through implementation, they do so at the risk of dismissal from office.

In this model, a “powerful” bureaucrat can adjust the final policy within certain limits; namely, as long as the executive prefers this implemented version to the status quo. Both E and L may turn a blind eye to these modifications so as to avoid a political deadlock, the costs of which would be higher than accepting a slightly less ideal outcome (crisis assumption).

This exercise shows that the econocrat can implement her own ideal point only when status quo lies outside of the $(W_E(L) \cup W_L(E))$. In addition, if positioned between the Executive and the Legislature, she can draw policy towards E’s ideal point with minimal agency slack ($\varepsilon$). Even then, her influence is conditional on her ideal point vis-à-vis the status quo. In essence, without the IMF as an ally for the conservative bureaucrat, the domestic economic policy-making game remains an uninteresting one: except a few cases in which the politician sets the agenda and the bureaucrat implements as decided. In what follows, it will become clear that interference by the Fund changes this structure by boosting the influence of conservative econocrats, and setting a ground for conflict.

Figures 3.2 and 3.3 illustrate two preference orderings in domestic politics that are more relevant for our purposes: $x_B < x_E < x_L$ and $x_E < x_B < x_L$, cases with an econocrat more and less conservative than the chief executive respectively. The preference ordering
$x_E < x_L < x_B$ is not realistic for bureaucrats of economy. It is unlikely that politicians would appoint econocrats who are far less conservative than themselves, as this move sends wrong signals to the markets without solving the time-inconsistency problem. In addition, this ordering fails to add to our theory as I focus on the relative positions of the Executive and the Bureaucrat.\(^\text{60}\)

Given these definitions, let us consider the conditions of policy change and stability. Policy change or disequilibrium is possible when a nonempty win-set for the status quo exists, $W(SQ) \neq \emptyset$. In other words, as long as a set of policy alternatives that benefits all veto players exists, a status quo policy can be replaced by any one of these alternatives.

**Proposition 3.1.** *Policy disequilibrium: a nonempty win-set.* If $SQ < \min(x_V)$ or $SQ > \max(x_V)$ for any status quo policy $SQ$, the win-set $W(SQ) = \cap W_V(SQ) \neq \emptyset$.

*Proof.* (1) If $SQ < \min(x_V)$, for any policy option $x^* \in R$ that satisfies $SQ < x^* < [\min(x_V) + |\min(x_V) - SQ|]$, $||x^* - x_V|| < ||SQ - x_V||$ that implies $U(x^*) > U(SQ)$ for all $x_V$. (2) If $SQ > \max(x_V)$, for any policy option $x^* \in R$ that satisfies $[\max(x_V) - |\max(x_V) - SQ|] < x^* < SQ$, $||x^* - x_V|| < ||SQ - x_V||$ that implies $U(x^*) > U(SQ)$ for all $x_V$. Therefore, $\cap W_V(SQ) \neq \emptyset$ in both cases (1) and (2).

In Figure 3.2, cases a, b, d, and e depict a nonempty win-set, hence the possibility of policy change. In contrast, case c depicts a stalemate in which the status quo is located in the *core*. This makes it impossible to change policy without worsening the situation of one of the veto players. In this scenario, the status quo is maintained, as there is no policy alternative that increases all the payoffs for all players.

**Proposition 3.2.** *Policy equilibrium: an empty win-set.* If $\min(x_V) < SQ < \max(x_V)$, for any status quo policy $SQ$, the win-set $W(SQ) = \cap W_V(SQ) = \emptyset$.

\(^{60}\)I discuss the issue of appointment in Chapter 2; here $B$ is still not as far away from $E$’s ideal point compared to $L$. This assumption reflects that discussion.
Proof. If $\min(x_V) < SQ < \max(x_V)$, for any policy option $x^* \in R$ and $x^* \neq SQ$, $\|x^* - x_V\| > \|SQ - x_V\|$ implying $U(x^*) > U(SQ)$ for at least one veto player. Therefore, $\cap W_V(SQ) = \emptyset$. 

These two propositions together reveal the conditions for initiating policy change, but remain silent about the implementation of the proposed change. The model suggests that policy implementer $B$ observes the decisions of veto players on new policy $x^*$ and implements it as $x^*_M$. This implemented policy outcome is not necessarily equal to the policy chosen by the veto players, $x^*_M \neq OR \neq x^*$. When determining the implementation point, $B$ takes into account three conditions. First, bureaucrats will avoid any policy drift that makes veto players worse off compared to the reversion point, $\|x^*_M - x_V\| \leq \|SQ - x_V\|$. Second, because bureaucrats are appointed by the executive who also sets the agenda for policy change, their implementation decisions are restricted by $E$’s preferences. If $x^* = x_E$, the drift will be minuscule. The logic behind this condition is that challenging the implemented policy outcome based on an agency slack $\varepsilon$ bears costs higher than simply accepting the negligibly small deviation from the equilibrium policy. If $x^* \neq x_E$, then $B$ can select any $x^*_M$ that satisfies the first condition. Third, bureaucrats will try to maximize their payoffs by adopting an implementation point that is closest to their own ideal points while still in line with the previous conditions, $\min\|x_B - x^*_M\|$.

Considering the preference orderings in this model, $x_B < x_E < x_L$ and $x_E < x_B < x_L$, the above-mentioned conditions yield three sets of propositions on the nature of implemented policy outcome. When the bureaucrat’s ideal point lies outside the core, the agency slack either does not exist or equals $\varepsilon$ depending on the position of the status quo.

**Proposition 3.3.** When status quo is at extremes, the decision of implementation by the agency is $SQ \notin (W_E(L) \cup W_L(E))$. If $x_B < x_E < x_L$ or $x_E < x_B < x_L$, agency slack, $\|x^*_M - x^*\|$, equals to $\varepsilon$. 

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Proof. (1) From Proposition 3.1, if \(x_B < x_E < x_L\), \(\|x_B - x^*_{M}\|\) is minimized when \(x^*_M = x^* - \varepsilon\). Using his agenda-setting power, \(E\) proposes \(x^* = x_E\); \(L\) accepts since \(\|x_E - x_L\| < \|SQ - x_L\|\). Therefore, \(x^* = x_E\) and \(x^*_M = x_E - \varepsilon\). (2) From Proposition 3.1, if \(x_E < x_B < x_L, \|x_B - x^*_M\|\) is minimized when \(x^*_M = x^* + \varepsilon\). Using his agenda-setting power, \(E\) proposes \(x^* = x_E\); \(L\) accepts since \(\|x_E - x_L\| < \|SQ - x_L\|\). Therefore, \(x^* = x_E\) and \(x^*_M = x_E + \varepsilon\).

Cases 3.2.a and 3.3.a depict this scenario. In both cases, \(SQ\) lies outside of the joint win-set of \(E\) and \(L\). Any point proposed by \(E\) that is in the core will be accepted by \(L\). \(E\) proposes his own ideal point. \(L\) accepts this proposal. Yet, knowing that a minimal drift towards her own ideal point will not evoke disapproval, \(B\) implements \(x_E - \varepsilon\) in case 3.2.a and \(x_E + \varepsilon\) in case 3.3.a. Both \(E\) and \(L\) know that \(B\) will implement \(x_E\) with agency slack \(\varepsilon\) because complete information is assumed. \(E\) still makes the proposal and \(L\) still accepts it as they prefer \((x_E)_M\) to the reversion point.\(^{61}\)

Proposition 3.4. The agency’s implementation decision when the status quo is in the joint win-set, \(SQ \in (W_E(L) \cup W_L(E))\), but not in the core. (1) If \(x_B < SQ < x_E < x_L, SQ < x_B < x_E < x_L, or SQ < x_E < x_B < x_L, agency slack, \|x^*_M - x^*\|, equals to \(\varepsilon\). (2) If \(x_B < x_E < x_L < SQ\) or \(x_E < x_B < SQ' < x_L < SQ\), agency slack does not exist, \(x^*_M = x^*\). (3) If \(x_E < SQ' < x_B < x_L < SQ\), agency slack is full, \(x^*_M = x_B\).

Proof. (1) From Proposition 3.1, if \(x_B < SQ < x_E < x_L\) and \(SQ < x_B < x_E < x_L\), \(\|x_B - x^*_M\|\) is minimized when \(x^*_M = x^* - \varepsilon\). Using his agenda-setting power, \(E\) proposes \(x^* = x_E\); \(L\) accepts since \(\|x_E - x_L\| < \|SQ - x_L\|\). Therefore, \(x^* = x_E\) and \(x^*_M = x_E - \varepsilon\). (2) From Proposition 3.1, if \(SQ < x_E < x_B < x_L\), \(\|x_B - x^*_M\|\) is minimized when \(x^*_M = x^* + \varepsilon\). Using his agenda-setting power, \(E\) proposes \(x^* = x_E\); \(L\) accepts since \(\|x_E - x_L\| < \|SQ - x_L\|\). Therefore, \(x^* = x_E\) and \(x^*_M = x_E + \varepsilon\). (3) From Proposition 3.1, if \(x_B < x_E < x_L < SQ\) or \(x_E < x_B < SQ' < x_L < SQ\), \(\|x_B - x^*_M\|\) is minimized when \(x^*_M = x^*\). Using his agenda-setting power, \(E\) proposes \(x^* = SQ'\); \(L\) accepts since \(\|SQ' - x_L\| = \|SQ - x_L\|\). \(B\) cannot move policy

\(^{61}\)Mirror images of these cases are omitted.
to $SQ' - \varepsilon$, because $L$ prefers SQ to $SQ' - \varepsilon$. Therefore, $x^* = SQ'$ and $x^*_M = x^* = SQ'$. (4)

From Proposition 3.1, if $x_E < SQ' < x_B < x_L < SQ$, $\|x_B - x^*_M\|$ is minimized when $x^*_M = x_B$. Using his agenda-setting power, $E$ proposes $x^* = SQ'$; $L$ accepts since $\|SQ' - x_L\| = \|SQ - x_L\|$. $B$ moves policy to $x_B$ with full agency slack, $\|x_B - SQ\|$. Both $E$ and $L$ accept because they prefer $x_B$ to SQ. Therefore, $x^* = SQ'$ and $x^*_M = x_B$. \hfill $\square$

In cases 3.2.d and 3.2.e, SQ lies closer to the ideal point of $E$. This position favors $E$ by presenting him a bargaining advantage against $L$. As mentioned before, when SQ is in the joint win-set, the core is constrained. In both of these cases, the constrained core includes $E$’s ideal point, which $E$ proposes to $L$. $L$ accepts this proposal. Knowing that a minimal drift towards her own ideal point will not evoke disapproval, $B$ implements $x_E - \varepsilon$ similar to case 3.2.a.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure33.png}
\caption{Macroeconomic policy-making with delegation, $x_E < x_B < x_L$}
\end{figure}

When the constrained core includes $x_E$ and the bureaucrat’\textquotesingle s ideal point lies between
those of $E$ and $L$ ($B_1$ and $B_2$ in case 3.3.d), $B$ can move policy to $x_E + \varepsilon$ as in case 3.3.a. Again this minimal drift will be accepted as long as the parties prefer it to the reversion point. For this scenario, there is no difference between a bureaucrat’s ideal point being inside or outside the constrained core ($x_{B_1}$ and $x_{B_2}$). $B_2$ cannot pull policy any further than $x_E + \varepsilon$, for example to $SQ'$. The second condition according to which $B$ selects an implementation point dictates that when $x^* = x_E$, and the drift will be minuscule due to the hierarchy between politicians and appointed bureaucrats.

In case 3.2.b, $SQ$ again lies within the joint win-set, but this time its position favors $L$. $E$ proposes the point that makes $L$ indifferent, $SQ'$: $x_L - ||x_L - SQ||$. $L$ accepts this proposition, and $B$ implements it without agency slack. This is because any point that will maximize $B$’s payoff, for example $SQ' - \varepsilon$, will make $L$ worse off compared to the reversion point. According to the first condition, bureaucrats will avoid any policy drift that makes veto players worse off compared to the reversion point, $||x^*_M - x_V|| \leq ||SQ - x_V||$. Hence, agency slack equals zero. The same can be said for the preference ordering $x_E < x_B < SQ' < x_L < SQ$ in case 3.3.b. Here $B_1$ cannot move policy to $SQ' - \varepsilon$ because this makes $L$ worse off compared to the reversion point.

Case 3.3.b presents an interesting scenario in which the bureaucrat is able to carry policy all the way to her own ideal point. When the core is restricted to favor $L$ and $B$ is located within this core, the bureaucrat’s agency slack will be full. $E$ proposes the point that makes $L$ indifferent, $SQ'$. Knowing that $L$ prefers $x_{B_2}$ to $SQ'$ and $x_{B_2}$ makes neither veto player worse off compared to the reversion point, $B_2$ implements her own ideal point. In fact, foreseeing this outcome, $E$ can propose $x_{B_2}$, given that his own ideal point lies outside the core.$^62$

**Proposition 3.5.** The agency’s implementation decision when the status quo is in the core.

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$^62$As $B$ gets closer to $L$, her agency slack will expand. Thus, the number of policy points for which $B_2$ will enjoy full discretion will be greater than those of $B_1$’s. Yet, expecting the policy drift, it is unlikely for any $E$ to appoint a bureaucrat whose ideal point will be so much closer to that of the legislature’s.
If \( x_B < x_E < SQ < x_L, \) \( x_E < x_B < SQ < x_L, \) or \( x_E < SQ < x_B < x_L, \) the policy is stable and agency slack, then, does not exist, \( x^*_M = x^* = SQ. \)

Proof. From Proposition 3.2, if \( x_E < SQ < x_L, \) for any status quo policy \( SQ, \) the win-set \( W(SQ) = \cap W_V(SQ) = \emptyset. \) Therefore, \( E \) proposes \( x^* = SQ, \) and \( B \) implements it, \( x^*_M = x^* = SQ. \)

Cases 3.2.c and 3.3.c depict scenarios in which \( SQ \) lies inside the core, making it impossible to move policy without making either \( E \) or \( L \) worse off. As the agenda-setter, \( E \) has to preserve the status quo policy to then achieve ratification. \( B, \) on the other hand, knows that \( E \) would prefer \( SQ - \varepsilon \) for case 3.2.c and case 3.3.c with \( B_1. \) However, she cannot move policy to \( SQ - \varepsilon \) as this will make \( L \) worse off compared to the reversion point. Case 3.3.c with \( B_2 \) presents a similar situation. Both \( B_2 \) and \( L \) will prefer \( SQ + \varepsilon \) to \( SQ, \) but this makes \( E \) worse off. Therefore, following the first condition, \( B \) implements the status quo policy in all three cases.

Figures 3.4 and 3.5 show the comparative statics of \( B \)'s influence as \( SQ \) moves along the policy space for different preference orderings. In Figure 3.4, the green zone illustrates the agency slack that \( B \) enjoys. For points inside \( W_L(E), \) there is no agency slack. These are points for which \( SQ \) or \( SQ' \) have to be implemented. The remaining policy points are those that \( E \) can move to in order to approach his ideal point \( (x_E) \) and \( B \) can implement at \( x_E - \varepsilon. \) Note that this drift should be minimal and exaggerated in Figure 3.4 to show the difference.

Figure 3.5 is a similar depiction, showing that even a “powerful” bureaucrat is highly constrained by the system and position of the status quo. Bureaucrats enjoy only an insignificant amount of agency slack when the status quo is located away from the core. The possibility for full agency discretion is limited to a case in which bureaucrats are less conservative than the executive and positioned closer to the legislature compared to the reversion point.
Figure 3.4: Change in the location of the implemented policy as the SQ moves, $x_B < x_E < x_L$ (the triangle-shaped green zone). Considering that econocrats are usually appointed by the executive, this scenario is perhaps the exception and not the rule. In addition, econocrats—especially those in non-autonomous agencies such as the treasury—are much less powerful in reality than in this model. Therefore, it is reasonable to conclude that in the absence of any outside-in effect politicians are the pivotal actors in economic policy-making, even after they delegate their implementation powers.
Figure 3.5: Change in the location of the implemented policy as the SQ moves, $x_E < x_B < x_L$

### 3.1.2 Effects of IMF Involvement

Once the Fund gets involved, the domestic game changes fundamentally. To begin with, IMF agreements require “program ownership” rather than legislative ratification. This feature eliminates the legislature’s role at least in the medium-term. In addition, the policy-making process changes as bureaucrats acquire agenda-setting power due to their given role at the negotiation table. Most significantly, the IMF quota adds another dimension: loans. The IMF’s involvement can be considered as an *ex ante* ratification process. Instead of international agreements being ratified by the domestic veto player, domestic policies are
scrutinized by the Fund. Figure 3.6 introduces these aspects into the framework, showing the IMF ($F$), bureaucracy ($B$), Chief Executive ($E$), status quo ($Q$), program ($P$), and implementation point ($M$).

Figure 3.6: Partial implementation of IMF programs

Considering the issue of specialization, in this model $B$’s influence is limited to her agenda-setting role. Later, I will briefly consider an econocrat in charge of implementing a certain part of the program that is within her area of expertise. I present the formal model and proofs for the propositions of this section in Appendix B.

As discussed in Chapter 2, implementation is rarely a subject of formal theory, let alone two-dimensional spatial modeling. Mertha and Pahre (2005) develop such a theory on the implementation of agreements on intellectual property rights between China and the United States. They define implementation as a continuous variable and partial implementation as “failure to move the status quo policies all the way to the agreement policy” (Mertha & Pahre 2005, 704). By considering implementation and partial implementation as such,
Mertha and Pahre then argue that parties ultimately sign an agreement with the knowledge that it would be implemented only partially because both prefer this point to the status quo, and at most one prefers it to the agreement.

Although international economic agreements present certain *sui generis* properties, I will build on Mertha and Pahre’s model to improve tractability. Now that the Fund is involved, the policy space is multidimensional. The $x$- and $y$-axes refer to program content (set of policies to be implemented) and the amount of loans, respectively. Each actor has an ideal point in policy space, $x_i$ for $i = F, B, E$. I assume that players derive utility from the minimization of the distance between the implemented version $x_M$ and their own ideal points $x_i$. Each player has an acceptance set ($A_i$) around his ideal point that consists of all the points he likes at least as much as the status quo ($x_Q$): $a_i = x : |x_i - x| < |x_i - x_Q|$. This also suggests that players are assumed to care equally about both dimensions: the program and money. Even though this assumption is not in complete harmony with reality, it is necessary to maintain the simplicity of the model.

As shown in Figure 3.6, $F$ prefers a stricter program than $B$ does for the same loans with the same principal amount. $Q$ lies below the $x$-axis to represent that a borrowing country’s access to its IMF quota is limited prior to the signing of an agreement.\(^{63}\)

Following Mertha and Pahre (2005), this model has two stages: negotiation and implementation. At Level I, the IMF ($F$) and the bureaucracy ($B$) negotiate the economic program $P$ at $x_P$ along their contract curve\(^{64}\), which consists of all the points they both prefer to the status quo $Q$ at $x_Q$. If they reach an agreement on the program, I proceed to the implementation stage. If not, the status quo prevails.

Once an agreement is reached, the Chief Executive ($E$) has to implement the pro-

\(^{63}\)The credit line is not necessarily zero at $Q$ because, even without a stand-by agreement, access to IMF credit is possible through emergency funds or the remaining installations of previous agreements.

\(^{64}\)Their contract curve is defined as the line segment $bf = x_Bx_F = x_P : x = x_F + (1 - \alpha)x_B, \alpha \in [0, 1]$. 

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gram conditions at Level II. This entails the movement of policy along the line segment pq, from status quo Q to program P.65 E can choose full implementation \( x_M = x_P \), non-implementation \( x_M = x_Q \), or partial implementation (any other point on line segment pq). Here, partial implementation is a point on pq, defined by “a degree of implementation \( m \in [0,1] \) defining a point \( x_M = mP + (1 - m)Q \). Full implementation implies \( m = 1 \), while nonimplementation implies \( m = 0 \)” (Mertha & Pahre 2005, 707).

In order to minimize the distance between the implemented version and his own ideal point, the implementer E should find the point on pq that is closest to \( x_E \). If such a point \( (x^*_E) \) lies on the line segment pq, E will choose an implementation level \( (m^*) \), so that \( (x^*_E) \) results. In Figure 3.6, the closest point to \( E_1 \)’s ideal point is shown as \( M \), the projection of \( x_{E_1} \). On the other hand, if such a point does not exist on line segment pq (but anywhere else on the line PQ), E will choose either full implementation \( x_M = x_P \) or non-implementation \( x_M = x_Q \), depending on the proximity of either point to \( x_E \). The \( E_2 \) in Figure 3.6 exemplifies/represents this situation.

Assuming both \( F \) and \( B \) know where \( E \) stands, they can anticipate the implementation level before negotiating the economic program. Without any costs attached to negotiations, \( F \) and \( B \) should be indifferent between non-implementation of an agreement and the status quo. Yet, in reality, non-implementation of a program can prove costly for both parties. A default on IMF debt or cancellation of a stand-by agreement are rare cases because of the audience and reputation costs on the parties. Here, I assume that these costs prevent \( F \) and \( B \) from negotiating an agreement that they know would not be implemented at all.

**Hypothesis 1** Either full or partial implementation is observed at the end of a game; complete non-implementation is not an outcome by assumption.

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65The line segment pq is defined as \( pq = x_Px_Q = x : x = \alpha P + (1 - \alpha)Q, \alpha \in [0,1] \).
See Appendix B for related propositions (B.1-B.6) and proof.

This explains why the IMF continues to sign agreements with countries that have poor records of implementation. As long as the Fund anticipates partial implementation, agreement is possible if a partially implemented version of the program is superior to the status quo.

This setting also tells us which Es can afford partial implementation and which cannot. When E lies inside the lower half of the intersection set $A_F \cap A_B$, partial implementation is always the outcome. This is also true for any other position below the $x-axis$ that E can take. On the other hand, if E is located above the $x-axis$, even inside the lens, the agreement will be implemented fully. Hence, only Chief Executives who are not in urgent need of foreign loans will be able to afford partial implementation and possible IMF sanctions. Executives who prefer a bigger chunk of the IMF quota will be more likely to initiate full implementation.

Figure 3.7 compares two executives with different preferences over loan size. $E_1$ needs considerably less IMF credit than $E_2$ does. When implementing the program (P), $E_1$ can afford partial implementation at point $M_1$ whereas $E_2$ cannot. The projection of $E_2$'s ideal point ($M_2$) is not on the line segment pq, therefore $E_2$ chooses the point closest to $M_2$, that is the full program at P. This result is dictated by the nature of the IMF agreement, as well as the amount of credit a borrowing government needs.

**Hypothesis 2** All other things held constant, the worse the economic conditions are in a country, the more likely its government will implement the IMF program fully.

Both F and B foresee partial implementation, which leads them to bargain over the implementation level rather than the actual program (Mertha & Pahre 2005, 712). Mertha and Pahre (2005) argue that this feature of the game leads to expansion of the possible equilibria. As shown in Figure 3.8, B can agree to a program outside the contract curve,
knowing that it will not be implemented fully. There are several anecdotes in the literature that focus on bureaucrats asking for stricter-than-necessary conditionality. This hypothesis leads to the question: how can they afford to sign these agreements?

**Hypothesis 3** *With an implementation constraint, a set of possible economic programs can expand to include stricter-than-necessary conditionality.*

The structure of this game dictates that at least one party prefers the partially implemented version to the original program. Therefore, it is not possible for F and B to coalesce against E by choosing a program that he will implement fully. Different from other international agreements that give no clue as to which party may care more about implementation level, for economic programs with conditionality, international lenders are known to favor full implementation over partial. This means that under certain circumstances, it

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66 These anecdotes along with related analytical narratives will be discussed in Chapter 5.
is possible for $B$ to receive concessions from $F$ by using $E$'s possible non-compliance.

Figure 3.8: Programs off the contract curve

Figure 3.9 depicts a slightly different game. Because IMF agreements are initiated by a letter of intent prepared by econocrats, one can assume a small change in the game sequence: $B$ chooses $P$, and $F$ either accepts or rejects $P$ in Stage I. Knowing that $F$ prefers any level of implementation to the status quo, $B$ can move policy to her own ideal point.

In Figure 3.9, there are two possible economic programs on the negotiation table. Both $P_1$ and $P_2$ offer the same amount of loans but with different program conditions. $P_1$ is a relatively stricter program compared to $P_2$. Although $F$ prefers the stricter program, he accepts $B$’s offer, $P_2$ knowing that $E$ would not implement $P_1$ at all. That means that $F$ is essentially choosing between two possible implementation levels: Q for $P_1$ and $M_2$ for $P_2$. Because any implementation is better than SQ for the Fund, he agrees on a flexible program rather than a strict but unimplementable one.
Figure 3.9: Bureaucrat steering negotiations towards a flexible program, $x_E$ below x-axis

**Hypothesis 4** When choosing between two possible programs, the Fund prefers an implementable program over a null one. Knowing this preference, econocrats may ask for programs with more flexibility.

Interestingly, this only works well when $E$’s ideal point is located under the x-axis in a complete information setting. If $E$ prefers a program with a bigger loan, the Fund may reject signing a flexible program. In Figure 3.10, $F$ prefers $P_1$ to $P_2$ and $M_1$ to $M_2$. In this scenario, $P_2$ would be implemented fully ($M_2 = P_2$), as described in Hypothesis 2. On the other hand, $P_1$ would only be partially implemented. Because preferences are convex, $F$ prefers a partially implemented program ($P_1$) to a program that would be implemented fully.

This scenario brings along two possible arguments. First, for countries experiencing extremely poor economic conditions, Fund officials sign agreements they know will be im-
Figure 3.10: Bureaucrat steering negotiations towards a flexible program, $x_E$ above x-axis implemented only partially. In these cases, they prefer a strict program to a flexible one that will be implemented to the letter. Second, in order to receive program waivers or any other kind of flexibility, econocrats must exaggerate their country’s economic conditions and the preferences of the government in an incomplete information setting.\(^{67}\) As analytical narratives will depict, this is possible when econocrats speak the same language as their IMF counterparts.

**Hypothesis 5** When choosing between two possible programs for countries under extremely poor economic conditions, the Fund prefers a strict program to a flexible one, even if it would be implemented only partially.

Why not agree on a fully implementable program? For Hypotheses 4 and 5, I assume

\(^{67}\)Implications of the incomplete information setting will be explored in a sequential game later in this chapter.
that the Fund chooses from options presented by econocrats. This of course is a simplified version of the very complex series of negotiations between the IMF and a borrowing country. In these negotiations, one’s initial intuition is that signing a fully implementable program is possible. Figure 3.11 illustrates the problem with such an agreement. To achieve full implementation, parties have to move the program $P_1$ to $P_2$. When compared to $M_1$, the implementation point for $P_1$, this is better for $B$ but worse for the Fund. As shown by Mertha and Pahre (2005), this distributional issue cannot be solved by intermediate agreements whose implementation points would lie on the arc between $M_1$ and $P_2$. This means partial implementation is an equilibrium and explains the repetitive nature of IMF agreements. In other words, the IMF expects partial implementation and negotiates with a borrowing country over the set of implemented points $M$. This also explains why complete defection by borrowing countries and severe punishment of partial implementation by the IMF are rare events.
**Hypothesis 6** Partial implementation point, $M$, is Pareto-efficient and constitutes an equilibrium so that the Fund and its client can find neither a fully implementable program nor another partially implemented point that they both prefer to $M$.

Before moving towards a sequential game setting, it is possible to explore this spatial model further by considering repeated plays, different types of bureaucrats, and the possibility of conflict.

![Repeated game](image)

**Figure 3.12: Repeated game**

All international agreements, but especially financial agreements, present a repetitive nature. Here one may easily imagine repeated plays of the implementation game in which implementation point, $M_1$, becomes the new status quo, $Q_2$, for the second round of negotiations. Figure 3.12 shows this transition. In the first round of negotiations, $F$ and $B$ negotiate $P_1$, which $E$ implements to $M_1$; for the second round, $M_1$ becomes the new status quo. $F$ and $B$ negotiate a new program $P_2$, which $E$ implements to $M_2$. An interesting
outcome of this process is that with repeated play terms of the IMF program become more flexible over time. In Figure 3.12, if a second round resulted in a strict program $P_3$, such an agreement would not have been implementable for $E$ ($M_3 = Q_2$). Knowing that, $F$ and $B$ are forced to move the program closer to $E$ in subsequent rounds. This result is similar for other positions for $E$.

**Hypothesis 7** The repeated plays of the implementation game may lead to agreements with flexible conditions over time.

This suggests that frequent clients of the IMF may receive special treatment in the form of waivers and time extensions. Do they make their decisions knowing that iteration will ease the sour taste of IMF conditions over time? Inspecting political and public reactions to the initial program conditions in borrowing countries, it seems that all players make their decisions myopically. In other words, favorable changes in implementation constraints over time may go unnoticed because of short-sighted decision-making.

In terms of the role of bureaucrats, this model shows an expansion of responsibilities. Mirroring reality, negotiations with the Fund take place along the contract curve between the Fund’s and the country representative’s (Bureaucrat’s) ideal points. Compared to the sans-IMF case (Figures 3.1-3.5), here bureaucrats enjoy an agenda-setting power they lack in domestic policy-making. This empowerment, however, presents two implications crucial to the issue of treaty compliance.

First, how does $B$’s program preference vis-à-vis the Executive’s affect program implementation? Is partial implementation more likely with a more conservative econocrat? Does $B$’s type give any advantage to $E$? To answer these questions, it is necessary to move $B$’s ideal point on the x-axis relative to $E$’s ideal point. Figures 3.13, 3.14 and 3.15 illustrate the most interesting cases ($x_F < x_E < x_B$ and $x_F < x_B < x_E$) for politicians with different
preferences of loan size.\textsuperscript{68}

Moving B’s ideal point along the x-axis changes the contract curve and therefore the program options at the negotiation table. A more conservative econocrat such as B\textsubscript{3} expands the contract curve. Yet, this expansion includes programs with stricter conditions, which are then more susceptible to partial implementation. This effect is even more prominent for the preference ordering $x_F < x_B < x_E$. As shown in Figure 3.14, when E prefers a program with conditions far more lenient than F and B would prefer, the expansion of the bargaining set (shaded line) consists of those agreements that would not be implemented at all.

Figure 3.15 makes the same comparison for countries in need of more loans. The basic finding remains the same: B’s becoming more conservative expands the core, but reveals nothing about the exact agreement point (P) on the contract curve. As E’s need

\textsuperscript{68}The preference orderings in which Executives are more conservative than the Fund (e.g. $x_E < x_F < x_B$) are trivial for this study, as they would implement the Fund’s conditions without any defection.

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for loans increases, so does his inclination towards full implementation (Hypothesis 2). Yet, even in this case, with a preference ordering \( x_F < x_B < x_E \), a really conservative \( B \) \((B_2)\) may lead \( E_2 \) to only partially implement a very strict program \((P_2)\). This is due to the expansion of bargaining set in favor of the Fund, with a conservative bureaucrat in charge.

How does the inclusion of stricter program options affect implementation? Although the model is silent about the exact agreement to be signed and, hence, its level of implementation, intuition leads us to two possible arguments:

**Hypothesis 8a** The more conservative the econocrat is, the more likely partial implementation is.

**Hypothesis 8b** The more conservative the econocrat is, the less likely partial implementation is.
Hypothesis 8a presents the argument that a conservative econocrat at the negotiation table opens the door to programs with severe conditionality. These programs often lie away from the politician’s ideal point. As such, they are less likely to be fully implemented.

On the other hand, conservative or not, bureaucrats are similar to other rational players and would prefer to move an agreement towards their own ideal points. A conservative econocrat may be more successful in doing so because of the parity between her position and the Fund’s. Considering E’s preference for a fully implemented flexible program over a partially implemented strict program (Figure 3.15), he may be better off with a conservative econocrat who can convince the Fund. Hypothesis 8b is based on the argument that partial implementation is less likely with conservative econocrats because of their ability to convince the IMF to sign onto a flexible program.

The second implication of bureaucratic empowerment after IMF involvement is the
potential conflict of interests in domestic politics. Figure 3.16 shows a case in which \( E \) prefers \( P_2 \) to \( P_1 \), but ends up with \( M_1 \), which improves his condition as compared to the status quo. If \( E \) had not delegated his bargaining power to \( B \), he would not have chosen \( P_1 \) and implemented \( M_1 \). Recognizing that IMF negotiations are not one-shot games, cases such as this may result in retaliation taken against the runaway bureaucracy.

**Hypothesis 9** Domestic conflicts of interest between politicians and bureaucrats are more likely in countries borrowing from the IMF compared to non-borrowing countries.

Finally, let us consider the implementer role of the bureaucracy. Though econocrats set the agenda for negotiations with the Fund, they may also be crucial at the implementation stage, given their areas of expertise. In such cases, \( E \) remains as the ratifier of the whole program, but cannot influence implementation without attracting undesirable attention from the Fund and international markets. The IMF retains a seal of approval for international
markets, and $E$’s signature on the economic program is seen as a signal of program ownership. If $E$ objects to $B$’s implementation decisions publicly, he jeopardizes this signal and the confidence it exudes. Therefore, depending on her area of expertise and level of independence, $B$’s influence may expand to making implementation decisions under IMF scrutiny.

![Figure 3.17: Implementation by a conservative bureaucracy](image)

Figure 3.17: Implementation by a conservative bureaucracy

Figure 3.17 portrays this increase in $B$’s power. Here, a conservative $B$ is only minimally constrained with $E$’s ratification power. In this case, $B$ would always prefer full implementation of any $P$ on the contract curve that $E$ ratifies (shaded line) rather than partial implementation. For example, programs $P_1$ and $P_2$, which would be implemented partially at points $M_1$ and $M_2$ by $E$, are now implemented fully by $B$. This illustrates how $B$’s influence may increase as a result of IMF involvement. Of course, this also increases the possibility for domestic conflicts of interests. If an autonomous econocrat plays a significant role in negotiating with the Fund and has a say in implementation, this newfound power practically pits her in competition with politicians.
In this section, using spatial modeling, we examine how an econocrat’s role changes with IMF involvement. Before an IMF program is initiated, even for “powerful” econocrats, agency slack is insignificant. Bargaining with the Fund helps econocrats expand their discretion to include agenda-setting powers. In doing so, conservative econocrats may ask for stricter-than-necessary or flexible conditions depending on the preferences of politicians. Therefore, econocrats—even if assumed to be devoid of implementation powers—may influence implementation with the agreement they negotiate.

In addition, the model suggests that countries with relatively poor economic conditions are likely to receive stricter-than-necessary conditionality. In such cases, the IMF is aware that partial implementation is the likely outcome, but prefers a partially-implemented, strict program to a fully-implemented, flexible one. In other words, because partial implementation is expected in some cases, punitive measures are not uniform for all clients. What is negotiated at the bargaining table determines both the level of implementation, as well as the possibility of relaxing program restrictions. Next, I will use a finite game of incomplete information to capture the effects of an econocrat’s preferences over program implementation. This bargaining model will illustrate how variation in the preferences of econocrats shapes the strictness and number of conditions, availability of waivers, and ultimately the level of implementation.

3.2 Signaling Implementation Preferences

Now that this chapter has established the heterogeneity of interests in domestic politics and the effects of IMF involvement on this structure, the next step is to analyze implementation within a more dynamic setting. In this section, a finite game of incomplete information will allow us to further investigate the role of preferences on implementation.
In essence, the implementation of IMF conditions depends on three factors: 1) overall economic climate at the time of implementation; 2) substance of an agreement; and, 3) the interests of the implementer.

For developing countries at the Fund’s door, the first factor usually varies within a very narrow spectrum, from bad to worse. Countries that require the IMF as an anchor for credibility rather than as a lender of last resort prefer to sign precautionary agreements and do not use their quotas. Due to the variety of incentives behind such agreements, one can assume that their signing is not dictated solely by a looming economic crisis. These precautionary loans make up only 14.6% of all the programs between 1992 and 2008. For the remaining programs, the unreliable economic climate is a constant. This suggests that implementation problems related to economic conditions are already assumed by Fund officials at the negotiation table. Variance across the content and implementation level of IMF programs, then, is not heavily dependent on these expected and well-known economic maladies.

This brings us to the second determinant of implementation: content. Arguably, it is less difficult to implement flexible and politically more affordable conditions. The substance of the agreement to be implemented is shaped by the preferences and commitments of the econocrats at the negotiation table. For example, Fund officials attributed the success of the 2001 standby program with Turkey to then Finance Minister Kemal Derviş, who is able to speak the same language as the IMF mission team (IMF 2002b). Derviş, a model econocrat, argued that the government’s purchasing of toxic bank assets—a policy that the Fund does not endorse in general—was a necessary evil for Turkish recovery (Bakır 2009). Trusting Derviş’s word on the Turkish government’s commitment to employ this policy for only a limited period of time, Fund officials approved the program. This flexibility assisted the Turkish government’s efforts to reform the banking system while avoiding a new crisis.

In other words, the strictness of the conditions to be implemented—including waivers
and the timetable— is one of the biggest determinants of program implementation. Spatial models of the previous section reveal that programs further from the implementer’s ideal point are implemented only partially compared to those with more flexible conditions. As the Turkish example shows, the content of the agreement has a great deal to do with the identity and interests of the implementer, the third determinant of implementation. The right “type” of econocrats can convince the Fund that their economic maladies constitute unusually severe obstacles to implementation and, consequently, necessitate a program with flexible conditions.69

In practical terms, there are only two types of implementers: partisans and technocrats (Lohmann 1998, 401). Partisan politics dominates macroeconomic policy-making when, for instance, manipulating the money supply for electoral purposes becomes the priority for the implementer (Nordhaus 1975, Hibbs 1977, Alesina 1987, Lohmann 1998). To increase their chances for re-election or re-appointment, office-seeking politicians or bureaucrats may focus on short-term gains, disregard austerity measures, and deviate from IMF conditions. As expected, this tendency may increase in election years and decrease immediately in the aftermath of elections. The temporal effects of political business cycles has been analyzed in the context of speculative attacks (Frieden 1999, Hays, Freeman & Nesseth 2003, Leblang & Bernhard 2000). The partisan type, thus, includes all office-seeking politicians and bureaucrats.

In contrast, the category of technocrats is comprised of those implementers whose main focus resides in reforms.70 In the case of Bundesbank, Lohmann quotes Joseph Schumpeter’s definition: “well-trained bureaucracy of good standing and tradition, endowed with

69Similar to economic context, a lack of administrative capacity is a uniform condition for borrowing countries. Problems due to administrative capacity are expected by the Fund, which spends a fifth of its gross expenditures for technical assistance and approximately 80 percent of this assistance is directed to low- and low-to-middle income countries. See the background paper “The Governance of IMF Technical Assistance” prepared by the Independent Evaluation Office of the International Monetary Fund (Cortes 2008).

70The sources of interest formation for these types of econocrats—educational background and career ambitions— will be examined in detail later in this chapter, as well as in chapters 4 and 5.
a strong sense of duty and a no less strong *esprit de corps*” (Lohmann 1998, 406). What I previously called transnationalist conservative econocrats fall under this category.

Conventional wisdom suggests that a technocrat may want to signal her commitment to economic reforms to the IMF in order to gain concessions at the negotiation table and achieve full implementation. To capture this intuition in a model, let $q$ be the prior probability that the Fund (F) assigns to the implementer (I) as a technocrat ($T$). $1 - q$ refers to the probability that the implementer is a partisan econocrat ($P$).\(^7\)

The Fund (“He”) does not know the identity and preferences of the implementer (“She”). To analyze this uncertainty over payoffs, I use Harsanyi’s (1967-68) method and construct a game in which *Nature* (N) makes the first move by selecting the implementer’s type. This maneuver turns this game of incomplete information into a game of complete, but imperfect information. The sequence of events is as follows:

*Nature* chooses the Implementer’s type according to the probabilities mentioned above. The Implementer knows her type, but the Fund does not.

The Implementer chooses a program with high or low conditionality, hence her strategy set is $s_i = \{H, L\}$.

The Fund observes the Implementer’s move, but does not know at which node he is. He accepts or rejects the program.

If accepted, the program is implemented by the Implementer. If not, the agreement is delayed. Payoffs are distributed accordingly.

The structure of the model and these types are general enough to accommodate different scenarios. Therefore, this model can depict a partisan econocrat like the Undersec-

\(^7\)Alternatively, $q$ can be interpreted as the probability of having an econocrat with a high level of independence and $1 - q$ as having an econocrat with a low level of independence.
retary of Treasury or a politician like the Finance Minister as implementers, depending on the specific policy on the table. The message to signal the Implementer’s type to the Fund, on the other hand, can be sent through negotiations over waivers, pre-agreement measures (i.e. Prior Actions), or the overall content of the program.

For simplicity, both types of implementers receive the same amount of utility from an agreement in force depending on its rigidity: 2 units for a program with a high level of conditionality (H), and 1 unit for those with a low level of conditionality (L). The difference in units of utility reflects the higher level of conditionality and large portion of the country quota granted by broader, more rigid programs than more flexible programs. In cases in which the Fund and its client cannot agree on a program, negotiations continue. As demonstrated in the previous section, parties do not begin negotiations if the programs on their contract curve cannot be implemented. They then usually shift to a lower gear and make optimistic public announcements about ongoing negotiations. This positive atmosphere helps countries maintain the confidence of private investors. Implementers gain 1 unit of utility in such cases –if the program on the table is a broad, medium- to long-term one with high conditionality. Policy-makers do not gain anything from a low conditionality program that is delayed.

Let the probability of full implementation by $T$ be $\pi_t$, and the probability of full implementation by $P$ be $\pi_p$. Naturally, $\pi_t > \pi_p$. A technocratic type prefers full implementation

---

72 Turkey began negotiations with the IMF at the height of the 2008 global financial crisis. Together with IMF press releases emphasizing the “medium-term structural fiscal reform agenda” these ongoing negotiations boosted market confidence (IMF 2009). As the situation improved, the parties dropped negotiations.
to partial implementation, therefore, the probability of the former is greater under her super-

These values, $\pi_t$ and $\pi_p$, constitute a negative utility for econocrats and a positive utility for the Fund as implementation at any level is costly for domestic policy-makers.

$2 - \pi_t - c_t, \pi_t - \mu \\
1 - c_t, 0 \\
2 - \pi_p - c_p, \pi_p - \mu \\
1 - c_p, 0$

Figure 3.19: Bargaining over the IMF Program

Let $\mu$ be F’s cost for monitoring implementation. In order to make this model interesting, assume that $\pi_t > \mu > \pi_p$. If $\mu > \pi_t$, the Fund would never lend and if $\mu < \pi_p$, the Fund would always lend regardless of implementation.

The key assumption is that $T$ and $P$ incur different costs for implementing IMF conditions ($\pi_t > \pi_p$) due to their commitment to different implementation levels, and different costs for asking for higher conditionality ($0 < c_t < c_p < 1$). Here, $P$ pays a higher cost for choosing higher conditionality because she cares about the electoral costs of these harsh economic reforms more than $T$ does. I also use this parameter as audience costs for a high

\[\text{Note that implementation depends only on the implementer’s type. There is no direct effect of the level of conditionality except for its role in signaling the implementer’s preferences to the Fund.}\]
conditionality program stuck at the bargaining table. Figure 3.19 provides the extensive form of the game.

Starting from the last stage of the game, in accordance with sequential rationality, $F$ would accept $I$’s program and implementation only if his expected utility of doing so equals to or exceeds $\mu$. The condition for IMF approval is $\pi_t Pr\{T|s_i\} + \pi_p Pr\{P|s_i\} \geq \mu$. This simply means that the monitoring costs should be no greater than the benefits of a program at any implementation level.

Given this condition, $T$ and $P$ choose their offer at the first stage. In this game, there can be three types of equilibria: separating, pooling, and semi-pooling. The first category consists of equilibria in which each implementer moves separately so that the Fund is able to differentiate their types. The second category refers to cases in which both partisan and technocratic implementers choose the same strategy, making it impossible for $F$ to update his beliefs. In the third category, a hybrid equilibrium exists with one type sending one signal while the other randomizes between two different signals.

### 3.2.1 Separating Equilibrium

I begin by considering a separating equilibrium in which $T$ demands low conditionality (L) and $P$ demands high conditionality (H). Partisan bureaucrats value the funds more than implementing conditions. This explains why they may ask for a stricter program in exchange for larger amounts of credit. Conversely, technocrats prefer a more “implementable” program through which they can realize some modest economic and institutional reforms. With this strategy profile, in equilibrium, $F$ learns implementer’s type. Because $\pi_t > \mu > \pi_p$, he accepts a program only if it contains low levels of conditionality.

**Proposition 3.6.** If $c_t \geq \pi_t$ and $c_p \leq \pi_p$, the following strategies and beliefs constitute a PBE:
\( s(T) = L, s(P) = H, s(F) = A \) if \( L \), \( s(F) = R \) if otherwise, \( \Pr\{T|L\} = 1 \) and \( \Pr\{T|H\} = 0 \).

Given these strategies, Bayes’ rule suggests that \( F \)’s equilibrium beliefs are \( \Pr\{T|L\} = 1 \) and \( \Pr\{P|H\} = 1 \). \( F \)’s decision to accept only when he observes \( L \) is a best response given \( \pi_t > \mu > \pi_p \). What can be said of the implementer’s move? In order for her move to be a best response, \( T \)’s utility from \( L \) should be higher than \( H \), and vice versa for \( P \). If \( c_t \geq \pi_t \) and \( c_p \leq \pi_p \), then both types of implementers play their best moves against \( F \). These conditions are necessary to support this equilibrium. For a letter of intent (or any prior action) to signal implementation level credibly, the cost of a high conditionality program should be sufficiently lower for a partisan implementer. Otherwise, she would also ask for lower conditions, and there would be no separating equilibrium.

These conditions can be understood in terms of electoral or socioeconomic costs. Imagine a country with relatively better economic conditions with a new government. In this case, if a partisan implementer is in charge of IMF negotiations, she would prefer ongoing negotiations to implementing a strict program. On the other hand, a technocrat would prefer an IMF program –even a limited one– to economic limbo.

In practical terms, these conditions tell us that fully implemented programs are modest ones. Technocratic types, who know their country’s capacity and institutional conditions, may be able to convince their IMF counterparts to accept a flexible program. On the other hand, if bargaining over high conditionality is cheap enough, partisan types may perpetuate negotiations with the Fund without any intention to sign or implement an agreement. In this way, partisan types bank on the positive investment atmosphere created by ongoing IMF negotiations. The Fund, on the other hand, finds its resources wasted. To prevent this, the IMF may make prior actions more effective and costly signals of future implementation, turning them into screening devices (Thomas & Ramakrishnan 2006).

\(^{74}\)See Appendix B for proofs.
There are no equilibria with reversed signals where $T$ asks for high conditionality and $P$ asks for low conditionality. If $F$ observes these strategies, he would only approve a program if it is a high-conditionality one. Then $T$ receives a utility of $2 - \pi_t - c_t$ for H and 0 for L. $T$’s strategy is a best response as long as $\pi_t + c_t \leq 2$. For L to be $P$’s best response, however, the necessary condition is hard to meet: $\pi_p + c_p \geq 2$. By definition, $0 \leq \pi_p < \pi_t \leq 1$ and $0 < c_p < 1$. Therefore, $P$’s strategy is not viable.

**Proposition 3.7.** If $\pi_t + c_t \leq 2$, $\pi_p + c_p \geq 2$, and $0 < \pi_p < \pi_t \leq 1$, the strategies $s(T) = H$ and $s(P) = L$ cannot constitute a perfect Bayesian equilibrium.

Intuitively, this makes sense. Why would a partisan type bargain over a program with low conditionality when it is possible to mimic the technocrat and ask for a high conditionality package? Without any intention to fully implement the stricter program, a partisan type would gain access to a greater portion of funds and save face in international markets. This result brings us to the possibility of a pooling equilibrium in which both types choose the same strategy.

### 3.2.2 Pooling Equilibria

In pooling equilibria, different types send the same message. Therefore $F$ cannot learn anything from these signals and must make his decision based on prior beliefs. This game has four separate pooling equilibria, three of which are weakly dominant and, hence, efficient. The most interesting part is that in these cases $T$ and $P$ ask for high conditionality (H). Regardless of $F$’s response, $s(T) = H$ and $s(P) = H$ constitute an equilibrium. The technocrat chooses a broader program mainly due to the reforms, whereas the partisan implementer mimics $T$’s behavior to gain access to more IMF credit. $P$ does not worry about the costs knowing that her implementation level for the attached reforms will be much lower than expected. The Fund approves a program with high conditionality if he
believes that it is $T$ who does the signaling. The truth is revealed only when implementation level is reviewed.

This result explains why countries sign agreements much stricter than they can afford and end up with only partial implementation. If the cost $T$ has to pay for a high conditionality program is sufficiently low—perhaps due to $T$’s career ambitions—then $T$ can bring such an offer to the bargaining table. A partisan econocrat would do the same, but with no intention to take on the whole burden. Ultimately, although program content is similar across borrowing countries, implementation level varies.

Below are the four pooling equilibria. The proofs are located in Appendix B.

**Proposition 3.8.** Suppose that $q \geq \frac{\mu - \pi_p}{\pi_t - \pi_p}$. The following strategies and beliefs are a perfect Bayesian equilibrium: $s(P) = s(T) = H$, $s(F) = A$ if $H$, $s(F) = R$ if otherwise, $Pr\{T|H\} = q$, and $Pr\{T|L\} \leq \frac{\mu - \pi_p}{\pi_t - \pi_p}$.

Because both $T$ and $P$ play the same strategy (H), Bayes’ rule implies that the Fund depends on his prior beliefs, $Pr\{T|H\} = q$. The Fund accepts the high conditionality program offer if the expected utility of acceptance exceeds that of rejection. After observing $H$, the Fund accepts if $q \geq \frac{\mu - \pi_p}{\pi_t - \pi_p}$. If $F$ believes that it is relatively likely that the econocrat is a technocratic type, then he accepts the program. If $F$ observes the out-of-equilibrium choice of $L$, he chooses to reject the offer thinking that a partisan econocrat is in charge. Because Bayes’ rule cannot be applied here, I assign arbitrary beliefs $Pr\{T|L\} \leq \frac{\mu - \pi_p}{\pi_t - \pi_p}$ after observing $L$. Given $F$’s strategy profile, are they optimal choices for $T$ and $P$? They both receive a zero for a rejected low conditionality program and $2 - \pi_t - c_t$ and $2 - \pi_p - c_p$ for an accepted high conditionality one. Thus, their strategies are best responses.

**Proposition 3.9.** Suppose that $q < \frac{\mu - \pi_p}{\pi_t - \pi_p}$. The following strategies and beliefs are a perfect Bayesian equilibrium: $s(P) = s(T) = H$, $s(F) = R$, $Pr\{T|H\} = q$, and $Pr\{T|L\} \leq \frac{\mu - \pi_p}{\pi_t - \pi_p}$.

In this case, regardless of the implementer’s action, $F$ rejects the proposal because
he finds it unlikely that a technocratic type is in charge. On the equilibrium path, I assign
\( Pr\{T|H\} = q \). Off the equilibrium path, I can assign \( Pr\{T|L\} \leq \frac{\mu - \pi_p}{\pi_t - \pi_p} \). Since \( F \) always rejects, ongoing negotiations over a limited program is a waste of time for both types. Instead, they are better off with an ambitious program on the table.

**Proposition 3.10.** Suppose that \( q \geq \frac{\mu - \pi_p}{\pi_t - \pi_p} \). The following strategies and beliefs are a perfect Bayesian equilibrium: \( s(P) = s(T) = H \), \( s(F) = A \), \( Pr\{T|H\} = q \), and \( Pr\{T|L\} \geq \frac{\mu - \pi_p}{\pi_t - \pi_p} \).

Given the beliefs on the equilibrium path \( F \)'s best response is to accept the program offer of the implementer. Even if the implementer defected and chose to bring a low-conditionality program to the bargaining table, \( F \) still believes it is relatively likely that a technocrat is in charge. Therefore, \( F \) chooses accept (A) on- and off-the-equilibrium path. Because \( F \) always accepts, it is optimal for both types to propose a high-conditionality program.

**Proposition 3.11.** Suppose that \( q \geq \frac{\mu - \pi_p}{\pi_t - \pi_p} \), \( \pi_t \leq c_t \), and \( \pi_p \leq c_p \). The following strategies and beliefs are a perfect Bayesian equilibrium: \( s(P) = s(T) = L \), \( s(F) = R \) if \( H \), \( S(F) = A \) if \( L \), \( Pr\{T|L\} = q \), and \( Pr\{T|H\} \leq (\pi_p - \mu)/(\pi_p - \pi_t) \).

In accordance with his equilibrium beliefs, \( F \)'s strategy is a best response to both types playing \( L \). If \( F \) observes \( H \), the probability assigned to \( T \) playing \( H \) is sufficiently low that \( F \) chooses \( R \) following a defection. Implementer \( T \) gets \( 1 - \pi_t \) in equilibrium but gets \( 1 - c_t \) by defecting. That means \( T \) will choose \( L \) as long as \( \pi_t \leq c_t \). Implementer \( P \) gets \( 1 - \pi_p \) in equilibrium but gets \( 1 - c_p \) by defecting. So \( L \) is a best response for \( P \) if \( \pi_p \leq c_p \). These conditions suggest that implementers choose a low-conditionality program only if the cost of choosing a high-conditionality one is sufficiently high.

**Proposition 3.12.** There is no equilibrium where \( s(P) = s(T) = L \) and \( s(F) = R \).

Both \( T \) and \( P \) would defect to \( H \) because it does not change \( F \)'s behavior, and the payoffs for defecting are greater than playing \( L \).
Proposition 3.13. There is no equilibrium where $s(P) = s(T) = L$ and $s(F) = A$ if H and $s(F) = R$ if L.

In this case, the implementer’s strategy does not constitute a best response since, regardless of her type, she can get more by defecting to H.

In essence, there are two types of pooling equilibria in this game: one where both implementers ask for high conditionality and one where both ask for low conditionality. Equilibria in which they play H (Propositions 3.8, 3.9, and 3.10) are more efficient than the others because in each case both types of implementers weakly prefer this strategy to others. Unfortunately, the Bayesian equilibrium concept does not point out which of these will occur more frequently. Yet, intuitively the Fund will respond by approving the program when both types ask for high-conditionality programs. Simply put, the IMF is a bureaucratic institution whose main task is to disburse funds and facilitate reform. For these reasons, even if the Fund has no way of knowing the potential implementation level, it will still approve the program.

3.2.3 Partial Pooling Equilibrium

Signaling games present a third possibility in which one of the parties always chooses a particular strategy while the other randomizes between pooling with and separating from the first player. According to some authors, exploring these hybrid equilibria is necessary to characterize the PBEs fully (McCarty & Meirowitz 2007, 225-227).

In this game, there is only one partial pooling equilibrium, in which the partisan always plays L, whereas the technocrat plays L with probability $\sigma$. This equilibrium holds under a restrictive condition.

Proposition 3.14. If $\pi_p(c_t - 1) > c_t - c_p - \pi_t(1 - c_p)$ and $\pi_t < 1$, then $s(P) = L$, $s(T) = \{L$
with probability $\sigma$, $s(F) = \{A \text{ if } H\}$ and $s(F) = \{A \text{ with probability } r \text{ if } L\}$ is a PBE.

Bayes’ rule implies that $Pr\{P|H\} = 0$. Hence, following a high-conditionality program proposal (H), $F$’s best response is to accept, given that it is $T$ making the offer. When $L$ is observed, Bayes’ rule is used to calculate conditional probabilities, $Pr\{P|L\}$ and $Pr\{T|L\}$. Next, the Fund chooses his probability $r$ of playing $A$, $r^* = \frac{2 - \pi_t - c_t}{1 - \pi_t}$. This probability makes $T$ indifferent between $H$ and $L$. The last step is to check if $P$ prefers $L$ to $H$. Only if $\pi_p(c_t - 1) > c_t - c_p - \pi_t(1 - c_p)$ and $\pi_t < 1$, $P$ always prefers $L$.

**Proposition 3.15.** There is no equilibrium where $s(T) = L$ and $s(P) = \{L \text{ with probability } \sigma\}$.

**Proposition 3.16.** There is no equilibrium where $s(T) = H$ and $s(P) = \{H \text{ with probability } \sigma\}$.

**Proposition 3.17.** There is no equilibrium where $s(P) = H$ and $s(T) = \{H \text{ with probability } \sigma\}$.

In hybrid equilibria, learning does happen, albeit imperfectly. When Fund officials observe a program proposal with high conditionality, they assume it is a technocrat sitting across the bargaining table. The fact that there are no partial pooling equilibria with $T$ always playing $L$ or $H$ shows $T$’s eagerness to communicate her type.

### 3.2.4 Implications

A review of the equilibria to the implementation game reveals that there are two reasonable possibilities: the separating equilibrium (*Proposition 3.6*) and the pooling equilibria with $H$ as the common strategy (*Propositions 3.8, 3.9, 3.10*). Pooling and partial pooling equilibria with low-conditionality signals are not efficient as both types weakly prefer high to low conditionality regardless of the Fund’s response. Among the efficient pooling equilibria,
Proposition 3.10 seems intuitively more plausible because of the IMF’s bureaucratic raison d’être.

These inferences lead us to certain implications that can be formulated as hypotheses.

The separating equilibrium takes us back to the importance of program content. The dual role of economy bureaucrats as negotiators and implementers enables them to influence the boundaries of the agreement they will carry out. This intertwined nature of the bargaining and implementation stages presents a valuable opportunity for econocrats to signal their preferences. If they can convince the Fund officials of their good intentions, it is possible to change some of the Fund’s uniform program conditions to accommodate their country’s needs. On the other hand, with a more modest program, it will be easier to attend to the process of policy change and overcome obstacles in domestic politics.

This model shows that technocrats request flexible conditions whenever the costs of severe conditionality are sufficiently high. In other words, knowing that a broader, more ambitious program may face obstacles from the political realm, conservative econocrats narrow down their target reforms. In this manner, they are able to both signal their preferences to Fund officials and receive preferential treatment. From the Fund’s point of view, waivers are granted under the warranty of having allies in domestic politics; thus, they are temporary aids for full implementation.

Hypothesis 10 Countries with conservative econocrats in charge are less likely to be sanctioned and more likely to receive program waivers.

The pooling equilibrium, on the other hand, emphasizes the role of the implementer’s preferences regardless of program content. Partial implementation can result from the attempts of partisans to mimic technocrats. When an ambitious program is brought to the bargaining table, it is in character for the Fund to approve it. Even though both partisans
and technocrats choose such economic programs for similar reasons (to increase the amount of IMF credit), only one type intends to implement all of the attached conditions. Hence, the level of implementation varies.

**Hypothesis 11** Countries with conservative econocrats in charge are more likely to achieve full implementation of IMF programs.

This section examines the pathways through which the policy preferences of econocrats may influence the implementation level of IMF programs: indirectly by shaping the content of the program and directly by making day-to-day decisions on policy formulation. While making these arguments, the models so far consider a “powerful” econocrat who can control either negotiation or implementation, or, in some cases, both. This assumption is reasonable for some countries with higher bureaucratic capacity and an institutionalized mechanism of delegation. Less autonomous, “weak” econocrats, however, may lack the above-mentioned means to influence international negotiations or the way agreements are implemented. The next section explores the role of “weak” econocrats in program implementation.

### 3.3 Cheap Talk: Weak Econocrats and Politicians

The power of an econocrat depends on two aspects: institutional autonomy and informational advantage. While the “weak” econocrat is devoid of the former, she still enjoys an edge in technical knowledge and expertise (Weber 1988, Putnam 1973, Dowding 1995, Hart & Wille 2006, Mueller 2009). As mentioned in Chapter 2, politicians need bureaucratic advice to make their decisions, especially on economic issues. Under IMF supervision, the implementation decision becomes the central focus of this relationship, and the game becomes much more different than the one “principal-agent” approach suggests. Due to the
IMF’s monitoring and the asymmetric nature of the information, the enforceability of the domestic hierarchy –i.e. the policing capacity of politicians– diminishes. That is to say, as mere advisors to politicians with no direct bargaining and/or implementation powers, the econocrats’ talk is cheap (Farrell 1987). Yet, is it enough to manipulate the implementation decision?

To answer this question, I use a simplified version of the cheap talk game (Crawford & Sobel 1982, Farrell 1987). Surprisingly, it shows that a biased bureaucrat has to be pessimistic to be influential. This analysis shows that bureaucratic manipulation of a politician is possible by painting a gloomy picture of economic depression regardless of the actual conditions. This strategy, however, may result in stricter-than-necessary conditionality that may lead to unintended consequences.\(^75\)

Assume that an agreement \((a)\) is signed with the IMF. This agreement is composed of two elements: loans and conditions. The amount of money loaned \((l)\) is determined by the borrowing country’s quota and negotiations with the Fund. Here, conditions \((c)\) are assumed to be determined by the Fund as a collection of standard reforms and costly policies. Yet, it is the Chief Executive \((E)\) who decides on which of these conditions will be implemented and the implementation level \((m)\).

\[
a = l - mc
\]

How does \(E\) decide on the implementation level, \(m\)? Although many factors can affect this decision, here I consider one crucial issue: the electoral costs of full implementation. Reforms and policies sponsored by the Fund carry short-term costs and long-term benefits for the public. Hence, politicians make their decisions depending on the expected costs of the fully-implemented program. If this cost is higher than they can bear, then they will choose partial implementation.

---

\(^{75}\)This argument is similar to the one in Hypothesis 3, albeit with the condition of a non-autonomous bureaucrat.
The model has two players: a technocrat \((T)\) and a Chief Executive \((E)\). \(T\) has communication with the Fund and has useful information about some macroeconomic parameter. Due to her “weak” status, \(T\) cannot make the implementation decision herself, but informs \(E\) by sending a signal, \(n\). \(E\) chooses an implementation level. \(E\)’s utility function is written as

\[
u_E(m, \beta) = -|m + \beta|
\]

where \(m\) is the implementation level and \(\beta\) is a variable that denotes the economic conditions. \(T\) knows this macroeconomic parameter with certainty, but \(E\)’s prior beliefs are that

\[
\beta = \begin{cases} 
\omega \text{ with probability } \pi \\
-\omega \text{ with probability } 1 - \pi
\end{cases}
\]

\(\beta\) is considered an indicator of economic conditions for which positive values denote a favorable environment and negative values vice versa. \(E\) wants to learn \(\beta\) before making a decision. If \(\beta\) is high enough, \(E\) can afford partial implementation and minimize his expected electoral costs. On the other hand, it can be expected that he will implement the program fully if economic turmoil is on the horizon.\(^{76}\) I assume that \(T\) always prefers an implementation level that is higher than \(E\)’s. Therefore, \(T\)’s utility function differs from \(E\)’s with her bias term, \(b\).\(^{77}\) To make this game more interesting, \(\omega > 0\) and \(b > \omega\).

\[
u_T(m, \beta) = -|m - b|
\]

This difference implies that while \(E\) chooses full implementation only when induced by economic conditions, \(T\) would always prefer an implementation level that is \(b\)-unit higher than \(E\)’s choice –regardless of economic conditions. To simplify the cheap talk game, \(E\)’s

\(^{76}\)This setting is congruent with Hypothesis 2 in which a good economic atmosphere may warrant partial implementation.

\(^{77}\)\(T\)’s utility function does not include \(\beta\), as she only cares about the implementation of austerity measures, no matter the economic conditions. Because \(T\) is also a citizen affected by the general economy, \(\beta\) can be included as an additive term. This addition, however, would not change these results and is thus omitted.
action is limited to two choices, full or partial implementation, \( m \in \{\omega, -\omega\} \). This assumption is restrictive, but serves purposes of this thesis by supporting a parsimonious model.

In sum, the game proceeds as follows:

- Nature chooses the economic shock variable, \( \beta = [-1, 1] \in \mathbb{R} \).
- Information \( \beta \) is revealed to \( T \).
- \( T \) sends a signal, \( n \in \{-\omega, \omega\}, 0 < \omega < 1 \).
- \( E \) chooses an implementation level \( m \in \{-\omega, \omega\} \).

### 3.3.1 Equilibrium Strategies

The first question is whether or not there exists a fully revealing equilibrium in which \( T \) shares her private information with \( E \). For this specification, \( T \) uses one of the following strategies:

\[
n(\beta) = \begin{cases} 
\omega & \text{if } \beta = \omega \\
-\omega & \text{if } \beta = -\omega 
\end{cases}
\]

or

\[
n(\beta) = \begin{cases} 
\omega & \text{if } \beta = -\omega \\
-\omega & \text{if } \beta = \omega 
\end{cases}
\]

The first strategy profile is *truthful*. If \( T \) uses this profile, \( E \) believes that \( Pr(\beta = \omega | n = \omega) = 1 \) and \( Pr(\beta = \omega | n = -\omega) = 0 \). Given these beliefs, \( E \) selects an implementation
level according to the following mapping:

\[
m(n) = \begin{cases} 
-\omega & \text{if } n = \omega \\
\omega & \text{if } n = -\omega
\end{cases}
\]

These beliefs and strategy profiles constitute a separating equilibrium, but only if 
T’s message mapping is sequentially rational. Because \( u_T(\beta = \omega, n = \omega) < u_T(\beta = \omega, n = -\omega) \), T’s signaling choice is not a best response to E’s implementation decision. When 
economic indicators are above average, T knows that E will choose partial implementation 
after receiving her truthful signal. Yet, T prefers a higher level of implementation than E’s 
decision. Therefore, she will be better off by deviating and announcing \( n = -\omega \).

**Proposition 3.18.** If \( b > \omega \) and \( 0 < \omega < 1 \), the strategies \( n(\beta = \omega) = \omega \) and \( n(\beta = -\omega) = -\omega \) 
cannot constitute a perfect Bayesian equilibrium.

See Appendix B for proof.

It is clear that the mirror image of this strategy profile is also not a best response. 
This means there is no untruthful, fully revealing equilibrium for this game.

**Proposition 3.19.** If \( b > \omega \) and \( 0 < \omega < 1 \), the strategies \( n(\beta = \omega) = -\omega \) and \( n(\beta = -\omega) = \omega \) 
cannot constitute a perfect Bayesian equilibrium.

See Appendix B for proof.

Though this game does not have a separating equilibrium, a pooling equilibrium 
is possible. Suppose that T sends the same information \( (n = -\omega) \) regardless of the actual 
economic conditions. Given this strategy, E learns nothing about \( \beta \) and decides based on 
his prior beliefs.

**Proposition 3.20.** Suppose that \( \pi \leq 1/2 \), \( b > \omega \), and \( \omega > 0 \). The following strategies and beliefs are a perfect Bayesian equilibrium: \( n(\beta = \omega) = n(\beta = -\omega) = -\omega \), \( m(n = -\omega) = \omega \) and
\[ m(n = \omega) = -\omega, \; \Pr(\beta = \omega|n = -\omega) = \pi. \]

See Appendix B for proof.

There is no pooling equilibrium in which \( T \) sends the message \( n = \omega \) because she has a strong incentive to deviate. In this case, \( T \) is better off with the off-the-path strategy of \( n = -\omega \).

### 3.3.2 Implications

This simple exercise demonstrates that only an unbiased bureaucrat with a utility function similar to the politician’s will send truthful messages. Yet, Muthoo (1999) suggests that while negotiating with international organizations, politicians appoint bureaucrats with interests similar to their international counterparts. In addition, as the spatial models in this chapter indicate, IMF involvement empowers economic bureaucracy by presenting a new policy-making platform and new responsibilities. In this atmosphere, it is difficult for politicians to appoint bureaucrats regardless of their policy preferences.

A biased econocrat can use her informational advantage to offset her institutional weakness. To this end, she has to be pessimistic about the economic conditions and persuade the politician that reforms are necessary to manage the situation. This strategy may also lead to unanticipated consequences. This game assumes that lying has no consequences and verification of the bureaucratic signal is not possible. In reality, however, politicians can discover \( T \)’s incentives and this might ignite a domestic crisis.

**Hypothesis 12** Conservative econocrats with limited institutional autonomy are more likely to exaggerate economic problems in order to push politicians towards signing and implementing IMF conditions.
3.4 Econocrat’s Policy Preferences and the Implementation Level

The models explored thus far show that econocrats – weak or powerful – influence the level of compliance with IMF conditionality. When their preferences are aligned with those of the Fund, they can use several pathways to shape policy. These may include direct as well as indirect methods. The direct influence of econocrats may include controlling the content of the IMF program and using their discretionary power at the implementation stage. On the other hand, misrepresenting economic conditions is an example of the indirect methods of econocrats. Yet, exactly how do the policy preferences of econocrats come to influence their choice of action? What role does institutional structure, such as level of independence, play in this process? This section will illustrate the answers to these questions using a career concerns model (Holmström 1999).

Bureaucratic interests and policy preferences – let alone their contribution to international agreements – constitute a neglected subject area. It is assumed that economy bureaucrats, especially those in autonomous agencies, are inherently conservative and neutral. In the words of the former Vice Chairman of the Federal Reserve, Alan Blinder, econocrats are assumed to “set aside their own personal beliefs about what is best for society and [...] do their duty” (Blinder 1997). Their “duty,” however, is defined by the pre-existing policy preferences of the econocrats, as well as the law. In other words, preferences and institutions jointly determine policy outcomes. Therefore, studying the preferences of econocrats in conjunction with institutional constraints is a crucial step towards understanding the variation in compliance with IMF agreements.

An econocrat’s preferences may be shaped by different sources and categorized into
various typologies.\textsuperscript{78} For the purposes of this thesis, there are two types of econocrats: those closer to the government and those closer to the Fund. Those in the first category, also named nationalist liberal econocrats, are easier to understand. After all, what is more logical for bureaucrats than implementing the wishes of those who hold the very power to appoint or dismiss them? Those in the second category, on the other hand, also called transnationalist conservatives, risk their current jobs to support Fund-sponsored policies in domestic politics. Their positions are justified by their pre-existing policy preferences, which coincide with the Fund’s, as well as the institutional autonomy that shields them from immediate retribution.

Unlike formal bureaucratic autonomy, there are no readily available measures of variance in policy preferences. One way to operationalize an econocrat’s preferences is to focus on her career incentives. It is difficult to imagine a senior bureaucrat who takes a private sector job after retirement and adopts two separate sets of policy preferences for each of her two careers. Instead, it is more likely that both of her jobs, and decisions while performing those jobs, reflect her policy preferences. Of course, her beliefs on duty and what is best for the society may be strengthened through her past career choices and socialization in those offices. No matter which takes precedence—preferences or career choices—there is no doubt that they are profusely intertwined (Schneider 1993, Adolph 2004).

Adopting a career-centric path to policy formulation is not a novel approach. It is used by numerous scholars, especially in the context of monetary policy-making (Rogoff 1985, Lohmann 1992, Stiglitz 2002, Adolph 2004). This attention is due to the idea that career incentives also carry the possibility of informal principals, whose bidding central bankers do to attain those rewards. For monetary policy-making, the most popular “shadow” principal is within the financial sector.\textsuperscript{79} I apply a similar framework by denoting the IMF as the

\textsuperscript{78}For example, Downs (1967) and Adolph (2004).
\textsuperscript{79}In these studies, central bankers with past experience in the financial sector are arguably more likely to adopt an anti-inflation agenda compared to career bureaucrats (Havrilesky & Gildea 1990).
shadow principal. As shown in this chapter, the Fund becomes an informal ratifier for borrowing countries and influences the domestic policy-making process. Moreover, the policy recommendations of the Fund usually coincide with those of the international financial sector. Therefore, it is reasonable to consider the IMF as an informal principal with the ability to offer career rewards in international institutions and the financial sector for transnationalist conservative econocrats.

### 3.4.1 Econocrat with Two Principals

To illustrate the relationship between preferences and policy outcomes, I follow Adolph’s (2004, 37) version of the career concerns model introduced by Holmström (1999). In keeping with the economic assumptions of these models, monetary policy—particularly inflation rate—will be of particular interest. In this setting, the Chief Executive and the IMF are formal and informal principals to the econocrat, respectively. They can promise career rewards to the econocrat, namely the central banker. The Executive may offer a career in politics, as well as job security. The Fund, on the other hand, can become a reliable reference for a future in private firms or international organizations. Even though the Fund is an informal principal with no present contractual relationship with the econocrat, its rewards can still surpass those of the Executive depending on the pre-existing preferences of the econocrat. By expressing the career rewards she prefers, the econocrat also reveals her preferences and loyalties.

I also assume that the economy follows a Lucas supply function where \( y \) and \( w \) denote economic output and wage level, respectively, \( \pi \) is inflation rate, and \( z \) is a normally distributed shock term with mean zero and standard deviation \( \sigma_z \)."
Based on the general model by Rogoff (1985), the quadratic utility function of the monetary authority, the output and the inflation rate at equilibrium are as follows:

\[ U_i = -(1 - \chi)(y - y_i)^2 - \chi \pi^2 \]  
\[ \pi^* = (1 - \chi)(\frac{y_i}{\chi} - z), \quad y^* = \chi z \]  

Here, the monetary authority’s utility depends on her ideal output \((y_i)\) and an ideal inflation of zero. \(\chi\) refers to the monetary authority’s conservatism, which is inversely related to his inflationary bias. This feature of the monetary policy affects the equilibrium output indirectly and can be observed as the variance in output increases along with the conservatism of the monetary authority. Conservatism, then, ushers in greater economic instability. Rogoff (1985) argues that governments may be tempted to deviate from conservative monetary policy in times of shock and solve this time-inconsistency problem by delegating to a conservative, independent central banker. The preferences of this central banker determine her level of conservatism \((\chi_i)\). A transnationalist conservative’s \(\chi\) \((\chi_T)\) would lie closer to the Fund’s, whereas a nationalist liberal’s \((\chi_P)\) would be positioned more closely to the politician’s.\(^{82}\)

\[ \chi_E \quad \chi_P \quad \chi_T \quad \chi_F \]

Figure 3.20: Spectrum of conservatism

The executive can choose any “type” of central banker from this spectrum and dele-
gate his monetary authority to her. I assume that the central banker has legal independence to set monetary policy according to her own policy preferences.

The central banker $B_i$ has three periods in her career. The first period, $t_0$, refers to the office she held immediately before her current central bank job. This may be inside or outside of the central bank. In period $t_1$, the executive appoints the central banker to set monetary policy. In the last period, $t_2$, the central banker either continues at her current post or takes a job outside (i.e. the financial sector, IMF, academia, or another government job, etc.). The central banker’s utility is as follows:

$$U_i = -(1 - \chi_i)(y_1 - y_i^*)^2 - \chi_i \pi_i^2 + \delta_i[-(1 - \chi_i)(y_2 - y_i^*)^2 - \chi_i \pi_2^2 + \theta_m + \tau_r]$$  \hspace{1cm} (3.4)

According to this formulation, the central banker’s utility depends on policy ($\pi$ and $y$) rewards from apolitical positions ($m$) and jobs in politics ($r$), and the responsiveness of the central banker to these rewards ($\theta$ and $\tau$ for private and government rewards respectively).\footnote{The term “apolitical” does not imply that international bureaucracy or the finance sector are uninvolved in politics. Instead, it merely emphasizes the difference from careers requiring professional involvement in politics.} These parameters determine the central banker’s career and policy preferences, and, consequently, the inflation policy itself.

The central banker makes her policy decision on ($\pi$) by choosing the optimal value of $\chi^*$, which then determines $\pi^*$ and $y^*$ when plugged into equation 3.3. Her choice of $\chi^*$ should maximize her utility function in equation 3.4.

The IMF (F) and the Chief Executive (E) are other players in this game. Their utilities depend both on policy, as well as the opportunity costs of career rewards they are able to offer to the central banker. Though F and E cannot set monetary policy, they can
offer future career rewards of $m$ and $r$ to $B_i$ if given the opportunity to choose the equilibrium level of $\chi$.

$$U_F = \sum_{\forall t} \delta_F^{t-1} \left[ - (1 - \chi_F) (y_t - y_t^*)^2 - \chi_F \pi_t^2 - \theta_1 m_t \right] \quad (3.5)$$

$$U_E = \sum_{\forall t} \delta_E^{t-1} \left[ - (1 - \chi_E) (y_t - y_t^*)^2 - \chi_E \pi_t^2 - \tau_1 r_t \right] \quad (3.6)$$

As shown in Figure 3.20, I assume $\chi_F > \chi_i > \chi_E$. The IMF is naturally more conservative than any government would like. By positioning the central banker between these two principals, I will explore an interesting case with a built-in heterogeneity of interests, resulting in a degree of tension.

The sequence of moves for this game begins with a bureaucrat’s ($B_i$) career background at $t_0$. In period $t_1$,

- $B_i$ is the central banker for a country under an IMF program. The Fund ($F$) offers $B_i$ a career reward for period $t_2$ worth $\tilde{m}$ in exchange for implementation of the program target $\chi_F$ in period $t_1$.$^{84}$
- The Executive ($E$) makes a simultaneous offer to $B_i$ for period $t_2$ worth $\tilde{r}$ in exchange for implementation of the program target at $\chi_E$ in period $t_1$.
- $B_i$ chooses a policy $\chi^* \in \{\chi_F, \chi_i, \chi_E\}$ for the implementation of the program. If $\chi^* = \chi_F$, the program is implemented fully. Otherwise ($\chi^* < \chi_F$), the result is partial implementation. Whatever the policy choice is, it results in the same-period outcomes, $\pi_{i1}^*$ and $y_{i1}^*$.

$^{84}$This reward can be a job or simply a commendation that generates a positive reputation for the bureaucrat and serves as a gateway to a job.
In period $t_2$,

- $F$ and $E$ decide on fulfilling their promises by choosing $m^* \in \{0, \tilde{m}\}$ and $r^* \in \{0, \tilde{r}\}$.

- $B_i$ chooses her career path. She either stays at the central bank or takes the Fund or Executive up on their respective offers. If she stays, she sets the policy at $\chi^* = \chi_i$ for period $t_2$, and $\pi_{2i}^*$ and $y_{2i}^*$ result. Otherwise, $E$ appoints a new central banker, starting a new game.

This game repeats itself for an indefinite period of time, but each $B_i$ can serve at most for two periods. Unlike bureaucrats, $F$ and $E$ are assumed to be long-term players which do not change during the game play. In the one-shot game, the different time horizons of the players can cause a problem: at the last stage of the game, neither of the principals have any incentive to fulfill their promises. Yet, in a repeated game setting, their reputational concerns guarantee cooperation. According to the folk theorem, assuming that each $B_i$ knows of $F$’s and $E$’s past behavior, their career offers will only be credible if they honored their previous commitments (Fudenberg, Kreps & Maskin 1990).

### 3.4.2 Implications of the Equilibrium

Formal treatment of the equilibrium for this game is located in Appendix B. This section will illustrate the main finding of the model: econocrats with preferences similar to the Fund will implement the Fund’s preferred policy and similarly econocrats with preferences akin to the politicians’ will implement their preferred policy. In other words, full implementation of an IMF program is more likely with bureaucracy on the Fund’s side.

In order to understand how the policy preferences of econocrats might affect implementation, let us first consider the variance in their types. Table 3.1 summarizes the typology
of econocrats with determinants of their preferences: amenability to a political career (τ), ambition for an apolitical career in international institutions or the financial sector (θ), and concern over policy itself (χ).

<table>
<thead>
<tr>
<th></th>
<th>Liberal</th>
<th>Conservative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political career</td>
<td>( \frac{1}{\chi}, \frac{\tau}{\theta} )</td>
<td>( \chi, \frac{\tau}{\theta} )</td>
</tr>
<tr>
<td>(e.g. legislator, minister, deputy minister)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Policy concerns</td>
<td>( \frac{1}{\chi}, \frac{1}{\theta}, \frac{1}{\tau} )</td>
<td>( \chi, \frac{\chi}{\theta}, \frac{\chi}{\tau} )</td>
</tr>
<tr>
<td>(e.g. economy bureaucracy, academia)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Apolitical career</td>
<td>( \frac{1}{\chi}, \frac{1}{\chi}, \frac{\theta}{\tau} )</td>
<td>( \chi, \frac{\theta}{\tau} )</td>
</tr>
<tr>
<td>(e.g. IMF official, finance sector jobs)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 3.1: Typology of Econocrats

I expect implementation level (μ) to vary with these types. Generally speaking, it ranges from full (μ = 1) to partial μ < 1 by following a diagonal from the bottom right cell to the top left corner. The econocrat’s type is determined when the weights in corresponding boxes are high. For example, the type on the bottom right corner is a conservative econocrat who values a future career in international financial institutions or the financial sector. Therefore, he is more likely to stand closer to the Fund’s policy preferences and implement program terms fully. On the other hand, a liberal econocrat with political ambitions will adopt the government’s preferred policy.

Figure 3.21 shows the effects of an econocrat’s preferences on implementation by holding the preferences of the Executive and the Fund as fixed. As the parameters of an econocrat’s preferences vary, policy outcome –consequently the implementation level– approaches the ideal points of either of the two principals.

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85 This graphic follows Adolph’s (2004, 43) example of presenting comparative statics. Changing the values of fixed parameters will change the appearance of the graphs. This is only a minor issue because the parameters chosen here are reasonable and the general conclusions will not be affected by such a change.
Let us consider the conservative econocrat. The graphic on the right shows a conservative central banker who values a career in international organizations or the finance sector (has higher $\theta_i$ and $\chi_i$). With such an econocrat in charge, the IMF tends to prevail in policy-making. When the same econocrat cares more about a political career (has higher $\tau_i$ and $\chi_i$), the Executive wins. As can be seen, this darker region is much smaller for the conservative econocrat compared to those of liberal and moderate types. This is because the weight on conservatism ($\chi_i$) interacts with those of career incentives $\theta_i$ and $\tau_i$ (Adolph 2004, 43). The bureaucrat’s conservatism makes offering career rewards cheaper for the Fund, albeit much more costly for the Executive. With a highly conservative econocrat in office, then, an econocrat’s political ambition $\tau_i$ should be sufficiently high to offset the disutility of implementing the politician’s much more liberal, ideal policy ($\chi^* = \chi_E$). On the other hand, there is no such disutility for the conservative econocrat when implementing the Fund’s ideal policy. Therefore, even with equal levels of $\theta_i$ and $\tau_i$, a conservative econocrat chooses $\chi_F$ as the equilibrium policy. In other words, conservative econocrats bargain with the Fund more

Figure 3.21: Typology of econocrats and implementation level ($\mu \in [0,1]$): Shaded areas indicate which principal prevails for the varying parameters ($\theta_i$ and $\tau_i$). The darker the region, the farther away the implementation level ($\mu$) is from the program target. For sectors indicated with $B_i$ (including a thin line that extends down the vertical axis to the origin in the final plot), the implemented policy depends on the bureaucrat’s preferences alone. For all plots, $\chi_F = 0.9$, $\chi_E = 0.3$, $\theta_F = \tau_E = 0.25$, $y_i^* = y_{F_i}^* = y_{E_i}^* = 0.2$, $\delta_i = 0.95$, $\sigma_z = 1$. 
easily and are more readily convinced by the Fund’s preferred policy.

This results in a conditional version of Hypothesis 11.

**Hypothesis 13** *Conservative econocrats with institutional autonomy are more likely to achieve full implementation of IMF programs.*

Central bankers who are equally attracted to both career paths are more likely to side with the IMF. This is due to the assumption that monetary policy affects both the level and variance of inflation, but only the variance of output. Therefore, there is more at stake for the financial sector compared to the government unless great economic fluctuations occur. The finance sector, thus, offers bigger rewards to control policy. This assumption is reasonable considering that the IMF depends on the implementation of tight economic policies to prevent financial crises from spreading globally.

Bureaucrats who are not attracted to either of these two ambitions will always act according to their inherent policy preferences (areas labeled $B_i$ in Figure 3.21). This suggests that conservative econocrats without any intention of seeking political office or private jobs will still side with the IMF. This result reflects the educational backgrounds and shared experiences of the econocrats. Through socialization, even those uninterested in career rewards can be enticed by either of the two principals. Because the IMF has built-in mechanisms of socialization and technical education for econocrats, the Fund seems to have an advantage with these types in office.

Socialization and the adoption of conservative economic ideology may occur through two channels. First, econocrats whose careers begin in economic institutions may tend to spend more time in international workshops, conferences and technical assistance programs. Hence, those spending their entire careers in bureaucracy would be more likely to side with the Fund. This influence would be proportional to the lengths of these careers.
Hypothesis 14a *Econocrats with backgrounds in economic bureaucracy are more likely to achieve full implementation of IMF programs.*

Hypothesis 14b *The longer the time spent in economic bureaucracy, the more likely it is that the econocrat will achieve full implementation of IMF programs.*

Second, as mentioned in Chapter 2, the Fund officials have a certain profile: males with doctoral degrees overwhelmingly granted by departments of economics of Western institutions (Momani 2005). Arguably, econocrats with similar educational backgrounds will share the Fund officials’ definitions of “good” economic policy. This shared understanding may pave the way for full implementation.

Hypothesis 15 *Econocrats with undergraduate or graduate degrees in Economics are more likely to achieve full implementation of IMF programs.*

There are certain caveats to this modeling exercise that will be explored in future extensions. To begin with, I have not considered the hiring costs of the IMF versus the government. From one point of view, the career opportunities in international bureaucracy are scarce, which suggests that the costs of career rewards should be higher for the Fund. From another perspective, if the IMF promotes the careers of econocrats by strengthening their reputation in the financial sector, then the associated costs would be much lower. On the other hand, senior econocrats may be close to the end of their careers and care less about any future jobs than they would about leaving a legacy. This may make them more likely to behave like policy-oriented bureaucrats regardless of where their ambitions lie.

For the purposes of this model, the IMF may be considered as a unitary actor, unchanged over time. Governments, however, do change. This introduces the possibility of coalitions and pre-electoral uncertainty into the game. A government on its way out is less likely to offer credible career rewards. In these cases, the leading political party may become a third principal for the econocrat.
In this model, politicians are assumed to know an econocrat’s policy preference \( (\chi_i) \) before appointing her. In reality, the exact value of \( \chi_i \) is marked with uncertainty, which can make the government unsure of the career rewards to offer. Future work will address these extensions.

### 3.5 Summary

Following the conclusions of the literature review in Chapter 2, this chapter presented a family of formal models that explore an actor-centric approach to the implementation of international agreements. Using five models, I focused on the effects of the implementer’s preferences on the bargaining and implementation stages. This approach helps us demonstrate that even those without autonomy may influence implementation indirectly through negotiations with the Fund.

The first two models illustrate the change in domestic politics, introduced by IMF involvement. Without any outside-in effect, even powerful econocrats enjoy limited discretionary power compared to politicians. When the IMF enters the stage as an informal ratifier or a shadow principal, it empowers those with conservative policy ideals. Hypotheses 1 through 9 formulate arguments derived from the perspective that conservative econocrats, constrained by politicians as implementers, can still have an impact on the implementation level. This influence may emerge as a result of the strictness or flexibility of conditions attached to the IMF agreement.

These spatial models also imply that in some cases partial implementation is an expected, even desirable, outcome when compared to other options. Instead of ending up with a defaulted client or a fully-implemented, yet ineffective program, the IMF may prefer a partially-implemented, strict program. In making this decision, an econocrat’s position
vis-à-vis politician’s plays an important role.

The third model considers an econocrat in charge of both the bargaining and implementation stages (Hypotheses 10-11). The IMF does not know the econocrat’s policy preferences and tries to intuit them from her signals at the bargaining table. The model shows that if a conservative econocrat is able to distinguish herself, her country will be more likely to get waivers, in cases of delays, and less likely to be sanctioned when partial implementation is observed. Interestingly, as a tactic to persuade IMF officials, conservative econocrats ask for less ambitious, limited programs.

The fourth model adopts an alternative point of view and assumes a weak econocrat, active in either of the two stages of cooperation. Yet, even as an advisor, an econocrat may be able to influence the implementation of international agreements. Econocrats may convince politicians to sign stricter-than-necessary IMF agreements by bluffing on the severity of economic conditions (Hypothesis 12). In these cases, partial implementation might be an unintended consequence of signing a strict program.

The last model forms a typology of an econocrat’s preferences and the corresponding implementation levels. Using a career concerns approach, it implies that econocrats make the implementation decision based on their career ambitions, as well as their inherent policy preferences. Hypotheses 13 through 15 focus on this argument by taking into consideration two aspects of preference formation: education and socialization.

In sum, these five models depict alternative means through which powerful or weak econocrats, with or without legal independence, can influence compliance with IMF agreements. The main argument is that the policy preferences of those in charge of both the bargaining and implementation of these agreements matter. The extent to which policy preferences matter depends on the institutional properties of the borrowing country.

Table 3.2 and 3.3 summarize the hypotheses of this chapter and the empirical tools
that will be used to evaluate them. Some of these hypotheses render variables for which appropriate indicators are available in panel data format. For others, qualitative approaches have more to offer. Using the most pertinent methods, chapters 4 and 5 will examine the validity of these hypotheses.
<table>
<thead>
<tr>
<th>Hyp.</th>
<th>Argument</th>
<th>Direct or indirect influence</th>
<th>Independence assumed?</th>
<th>Empirical approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Non-implementation is a rare event.</td>
<td></td>
<td></td>
<td>Panel data</td>
</tr>
<tr>
<td>2</td>
<td>+ correlation: Economic hardship and implementation level</td>
<td></td>
<td></td>
<td>Case study</td>
</tr>
<tr>
<td></td>
<td>+ correlation: Strictness of conditions and partial implementation</td>
<td>Direct</td>
<td>No</td>
<td>Case study</td>
</tr>
<tr>
<td></td>
<td>− correlation: Economic hardship and strictness of conditions</td>
<td></td>
<td></td>
<td>Case study</td>
</tr>
<tr>
<td>5</td>
<td>+ correlation: Economic hardship strictness of conditions</td>
<td></td>
<td></td>
<td>Case study</td>
</tr>
<tr>
<td>6</td>
<td>Partial implementation is an equilibrium.</td>
<td></td>
<td></td>
<td>Case study</td>
</tr>
<tr>
<td>7</td>
<td>+ correlation: Number of previous agreements and implementation level through flexibility of conditions</td>
<td></td>
<td></td>
<td>Case study</td>
</tr>
<tr>
<td>8a</td>
<td>+ correlation: Conservative policy preferences and implementation level through flexibility of conditions</td>
<td>Both</td>
<td>No</td>
<td>Case study</td>
</tr>
<tr>
<td>8b</td>
<td>− correlation: Conservative policy preferences and implementation level through severity of conditions</td>
<td>Both</td>
<td>No</td>
<td>Case study</td>
</tr>
<tr>
<td>9</td>
<td>+ correlation: Domestic conflicts of interests and borrowing from IMF</td>
<td></td>
<td></td>
<td>Case study</td>
</tr>
</tbody>
</table>

Table 3.2: List of hypotheses-1
<table>
<thead>
<tr>
<th>Hyp.</th>
<th>Argument</th>
<th>Direct or indirect influence</th>
<th>Independence assumed?</th>
<th>Empirical approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>+ correlation: Conservative policy preferences and program waivers</td>
<td>Direct</td>
<td>Yes</td>
<td>Case study Panel data</td>
</tr>
<tr>
<td>11</td>
<td>+ correlation: Conservative policy preferences and implementation level</td>
<td>Direct</td>
<td>Yes</td>
<td>Case study Panel data</td>
</tr>
<tr>
<td>12</td>
<td>−/+ correlation: Conservative policy preferences and implementation level through misrepresentation of conditions</td>
<td>Indirect</td>
<td>No</td>
<td>Case study Interviews</td>
</tr>
<tr>
<td>13</td>
<td>+ correlation: Conservative policy preferences and implementation level</td>
<td>Both</td>
<td>Yes</td>
<td>Panel data</td>
</tr>
<tr>
<td>14a</td>
<td>+ correlation: Backgrounds in economy bureaucracy and implementation level</td>
<td>Both</td>
<td>No</td>
<td>Panel data</td>
</tr>
<tr>
<td>14b</td>
<td>+ correlation: Time spent in economy bureaucracy and implementation level</td>
<td>Both</td>
<td>No</td>
<td>Panel data</td>
</tr>
<tr>
<td>15</td>
<td>+ correlation: Degrees in economics and implementation level</td>
<td>Both</td>
<td>No</td>
<td>Panel data</td>
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</tbody>
</table>

Table 3.3: List of hypotheses-2
Chapter 4

Testing the Role of Econocrats: The Impact of Policy Preferences

The theoretic explorations in Chapter 3 show that domestic policy preferences play a key role in compliance with IMF agreements. Conservative econocrats may influence the implementation stage by choosing policy instruments akin to those promoted by the Fund, as well as through manipulations at the bargaining stage. Based on the classification of hypotheses in Table 3.2 and 3.3, this chapter presents the panel data and empirical tests utilized throughout this project.

Chapter 4 is comprised of four sections. Section 4.1 discusses the use of a large-N research design with respect to the major theoretical expectations from Chapter 3. Section 4.2 details variables, case selection, estimation techniques, coding criteria and reliability issues. Section 4.3 presents the findings and explores theoretical implications in Chapter 3. Section 4.4 provides a summary of the chapter.

4.1 Empirical Testing

The implementation of international agreements is a complex process with intertwined systemic and individual-level factors at work, none of which can be addressed through a single method. Hence, I employ several approaches to reveal as much of this complexity as possible.
Using a large-N research design offers a starting point for empirical analysis of implementation. To begin with, the data on IMF agreements, their conditions, and end results are readily available – albeit incomplete. The Fund, for instance, has made The Monitoring of Fund Arrangements (MONA) database electronically accessible for the ten-year period between 1993 and 2013.\textsuperscript{86} This is a rare occasion in the social sciences, especially within the international cooperation literature. By seizing this opportunity, it is possible to look for correlations in this thesis at the macro-level, across time and space. In addition, because the cases are drawn from a large sample, I avoid the risk of having selections drive findings.

From a theoretical perspective, a large-N study enables us to investigate the negotiation and implementation stages together. The theory in Chapter 3 suggests that an econocrat’s influence may be limited to the negotiation stage. Yet, this early influence may be enough to tip the scales in favor of either compliance or non-compliance. To study bureaucratic impact at both stages, using a technique that takes into account the data generating process is an appropriate instrument.

In short, the case for a large-N research design arises due to both practical and theoretical considerations. The literature has generally responded to these motivations, as seen in Figure 2.5. In the field of implementation, a growing number of studies are incorporating a large-N approach. Most of these studies, however, do not consider the implementer’s role. The political indicators in these previous works are limited to systemic ones: regime type, number of veto players, and polarization. Bureaucratic quality is plugged in only as a proxy for implementation capacity (Ivanova et al. 2003, Nsouli, Atoian & Mourmouras 2006).\textsuperscript{87} In this project, the educational background and career ambitions of econocrats are used as the main explanatory variables to draw attention to the implementer’s policy preferences. As

\textsuperscript{86}For access into the MONA database, see http://www.imf.org/external/np/pdr/mona/index.aspx

\textsuperscript{87}Only recently have the biographical details of bureaucrats found their way into large-N studies of IMF agreements. Nelson (2014), for example, codes these details to calculate the proportion of neoliberals in government, which he finds to be negatively correlated with the number of conditions attached to Fund-sponsored programs.
far as I know, this is the only large-N study on compliance with IMF conditionality that incorporates the data on undergraduate and graduate-level educations and prior occupations of 1078 central bank governors and finance ministers from 111 countries.\textsuperscript{88}

4.2 Research Design

4.2.1 Case Selection

This study empirically tests the hypotheses from Chapter 3 using a panel of 126 states between 1978 and 2008. In this time period, 111 states entered a total of 586 programs. The remaining 15 states did not sign any agreements during this period. The lists of these states are in Appendix C. I chose 2008 as the cutoff date due to the structural break introduced by the Great Recession, which began in that year. Given the potential impacts on the Fund’s role and its clientele, the aftermath of this first global crisis may skew this analysis and merits separate investigation.

The Fund programs in this dataset comprise concessional, as well as non-concessional facilities for theoretical reasons. The influence of econocrats may be at its peak at the negotiation table while bargaining over the type of facility to be implemented. By definition, concessional facilities (previously Extended Structural Adjustment Fund Facility and after 1999 Poverty Reduction and Growth Facility)\textsuperscript{89} are designed to help low-income countries

\textsuperscript{88}In total, I reached the names of 703 central bank governors and 598 finance ministers through IMF reports and institutional websites. However, biographical details of only 509 central bank governors and 569 finance ministers were available for coding. Sources and operationalization for these variables will be explained in Section 4.2.

\textsuperscript{89}The Poverty Reduction and Growth Facility (PRGF) is succeeded by the Extended Credit Facility in 2010. In addition, the Rapid Credit Facility and the Standby Credit Facility are added as new concessional lending facilities. I will use the old categorization detailed in Chapter 2 to reflect the system in place before 2008.
with more flexible conditions. Some argue that recipients of these loans constitute a uniform
group for which the IMF is eager to supply assistance and these programs should therefore
be excluded from studies of compliance. Yet, of 78 PRGF-eligible countries, some have a
mixed record of concessional and non-concessional programs (e.g. Bolivia), while others
have signed one more frequently than the other (e.g. Chad and Dominica). In other words,
PRGF-eligible countries do not always sign a PRGF in every case (IEO 2009). If program
type is a decision that may come under the influence of econocrats, then all program types
should be included in this project.

4.2.2 Concept Operationalization

Independent Variables

Empirical models in this chapter employ numerous independent variables that are
pertinent to the complex nature of IMF programs. Many of the economic variables listed
below are those recommended by previous empirical studies on IMF conditionality. Unless
otherwise indicated, all economic variables are extracted from the World Bank’s World De-
velopment Indicators databank (Bank 2012), and are lagged one year in order to account
for the possible causality between economic conditions and implementation decisions. The
second group of independent variables includes measures of domestic and international pol-
itics. The last category is comprised of independent variables of the utmost substantive
importance to this project: indicators of conservative policy preferences.

Debt Service Ratio of debt service to gross national income (GNI).

Reserves Gross international reserves measured in months of imports.
**Growth** Annual percentage growth rate of gross domestic product (GDP) at market prices based on constant local currency.

**Fixed Exchange Rates** Dummy variable for fixed exchange rate regime, coded from Ilzetzki, Reinhart and Rogoff’s (2010) data.

**Net Domestic Credit Growth** Annual growth in the sum of net credit to the non-financial public sector, credit to the private sector, and other accounts. Data are in current local currency.

**GDP per Capita** Gross domestic product divided by midyear population, measured in constant 2000 US dollars.

**Trade** The sum of exports and imports measured as a percentage of GDP.

**Budget Deficit** Deficit measured as a percentage of GDP.

**Inflation, GDP deflator** Inflation as measured by the annual growth rate of the GDP implicit deflator.

**M2** Money and quasi money (M2) as percentage of GDP. This variable corresponds to “the sum of currency outside banks, demand deposits other than those of the central government, and the time, savings, and foreign currency deposits of resident sectors other than the central government” (Bank 2012).

**Democracy** Dummy variable coded from the eleven-point scale Democracy (DEMOC) indicator of the Polity IV project (Marshall, Jaggers & Gurr 2011). In accordance with the standard practice, any country with a score of seven or higher is coded as an established democracy.

**Fractionalization** Continuous variable measured on a zero-one scale, coded from the fractionalization (FRAC) variable of the Database of Political Indicators (DPI2010) (Beck,
Clarke, Groff, Keefer & Walsh 2001). It is “the probability that two deputies picked at random from the legislature will be of different parties” (Keefer 2010, 14).

**Political Time Horizon** Variable that counts the years left in the current term of the executive, coded from the same variable (YRCURNT) of the Database of Political Indicators (DPI2010) (Beck et al. 2001). A value of zero indicates that elections will be held that year.

**Similarity** Lagged S measure of similarity in voting records between the US and other states in the United Nations General Assembly (Strezhnev & Voeten 2013).

**US Aid** Lagged net official development assistance from the US, measured in constant prices at 2010 USD and coded from the Organization for Economic Co-operation and Development Official Development Assistance database (OECD-ODA 2012).\(^{90}\)

**Fund Quota** The state’s total borrowing privileges in the Fund, measured in a natural logarithm of millions of SDRs, lagged one year, and coded from the IMF e-library International Financial Statistics database (IMF 2012).

**Borrowing Experience** A count variable that adds up the years spent under an IMF program. It takes the value of zero for the first time a country signs an agreement, and stagnates for years spent out of IMF sponsorship.

As mentioned in Chapter 2, bureaucratic influence on the implementation of international agreements depends on two aspects: policy preferences and the capacity to act independently. Policy preferences are adopted through an internal process that may be shaped by educational background, career paths and degree of socialization with different types of policymakers. Hence, I operationalize the policy preferences of econocrats as proxies by utilizing biographical details on educational background, level of expertise, and careers.

\(^{90}\)Values for this variable might be negative due to repayments of assistance.
Due to issues of data availability, these variables are compiled only for the central bank governors and finance ministers of member states. These actors are members of the IMF Board of Governors and serve as the heads of bureaucracies who negotiate, sign and implement IMF programs.

**Education (CBG)** A binary variable that indicates a bachelor’s degree in economics, business or finance for the central bank governor (CBG). The variable takes a value of zero for any other educational background.

**Education (MOF)** A binary variable that indicates a bachelor’s degree in economics, business or finance for the minister of finance (MOF). The variable takes a value of zero for any other educational background.

**Career (CBG)** A binary variable that indicates a central bank governor with a central banking career.

**Career (MOF)** A binary variable that indicates a finance minister with a central banking career.

**Expertise (CBG)** A binary variable that indicates a master’s or doctorate in economics or finance for the central bank governor.

**Expertise (MOF)** A binary variable that indicates a master’s or doctorate in economics or finance for the finance minister.

Given the nature of IMF programs, holding a policy position on implementation may not be sufficient to generate bureaucratic influence. Agency autonomy is a crucial determinant of wielding influence, especially to understand how bureaucratic influence translates into policy. In Section 3.3, a cheap talk model showed that a “weak” and biased econocrat

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91Professional and educational background information is obtained through central bank and ministry of finance websites, several volumes of Marquis Who’s Who, and personal communication.
may use her informational advantage to offset her lack of institutional autonomy. Therefore, it is important to include a measure of agency autonomy. The central banking literature uses Cukierman, Webb and Neyapti’s (1992, 1994) measure of legal independence. However, this measure is not available for each of the countries and years included in this project. In addition, because it is a legal measure, and laws change rarely, this measure demonstrates low annual variance. Instead, I use the following measures from Dreher, Sturm, and de Haan’s (2008, 2010) data set, which captures the actual level of independence by using the element of time.\footnote{The data is available on http://www.kof.ethz.ch/centralbankgovernors.}

**Irregular Turnover** Dummy variable for replacement of a central bank governor before the end of the legal term in office.

**Bureaucratic Time Horizon** Number of years left until the end the governor’s legal term in office.

**Turnover Number** Number of actual turnovers in a particular year.

**Legal Duration** Duration of governors’ term in office according to the central bank law.

**Time in Office** Number of years spent in office since a governor’s appointment.

Even though these are proxies of the central bank governor’s discretionary power, they present a way to understand whether or not econocrats in a particular political system have job security how much political pressure econocrats experience in their decision-making.

**Dependent Variables**

The dependent variables in this project are grouped in three categories: selection,
implementation, and conditionality.

**Agreement Selection** A binary variable indicating if a country is under an IMF arrangement between 1978 and 2008. This information is found in the annexes of the Fund’s Annual Reports for the 1978-1993 period and in the MONA data for the years 1993-2008.

The family of models in Chapter 3 indicate two causal mechanisms through which an econocrat’s influence may be translated into policy. First, a direct mechanism of influence suggests that econocrats affect compliance level as implementers simply by choosing policies recommended by the IMF arrangement over any others. This implies using indicators of overall compliance level. Following the literature, I employ two such measures, one binary and the other continuous.

**Program Suspension** A binary variable that indicates ineligibility for all the drawings of an arrangement. Borrowing states find themselves in this position if they miss a performance criteria and are unable to obtain a waiver or if they fail a quarterly review. This variable is coded from Martin S. Edwards’ dataset, which depends on the Schadler reports, quarterly country reports of the Economist Intelligence Unit (EIU), and Edwards’ own analyses of program reviews from the IMF archives (Schadler 1995a, Schadler 1995b, Edwards 2002). Edwards’ dataset covers the 1979-1995 period; I coded this variable for the 1995-2008 period using the MONA data and EIU reports (EIU 2013).

**Implementation** An annual ratio of disbursed to approved loans. The Fund releases tranches of promised loans after program reviews, depending on whether or not certain conditions have been met by the borrowing country. When some or all of a disbursement is left undrawn, this may indicate deviation from program goals. This variable is
coded using the MONA data set and the EIU country reports (Ivanova et al. 2003).\textsuperscript{93}

In 217 of the 586 Fund programs studied, states were not eligible for all of the available drawings.\textsuperscript{94} The average disbursement rate between 1978 and 2008 was .64 when precautionary agreements are included, and .7 when they are excluded. This rate is negatively correlated with the occurrence of program suspensions. Figures 4.1 and 4.2 show histograms of program suspensions by region and the ratio of disbursements to commitments (i.e. implementation ratio), respectively.

Figure 4.1: Histogram of Program Suspensions by Region

This route requires a “powerful” econocrat and possibly invokes conflicts of interests with domestic actors in favor of partial implementation. Hence, “weak” econocrats may prefer the second route to avoid discord. This one is an indirect mechanism that operates

\textsuperscript{93}Killick (1995), for instance, uses a 25% arbitrary cutoff point to determine the proportion of the IMF loans that are committed, but remain undrawn at the end of a program. Dreher (2006) criticizes this approach because of its omission of interruptions occurring before program expiration.

\textsuperscript{94}Borrowing countries experienced a suspension of funds in 356 of the 1491 program-years.
through an econocrat’s advising role and her seat at the international bargaining table.

**Strict conditionality** A binary variable that indicates arrangement type. The Fund’s non-concessional arrangements – Stand-By Arrangement (SBA) and Extended Fund Facility (EFF) – bear stricter conditionality compared to non-concessional facilities. Hence, this indicator takes the value of one if a state is under an SBA or an EFF for a particular year. This variable is coded using the MONA dataset, the EIU country reports, and program reviews from the IMF archives.

**Waiver** A binary variable that indicates whether the Fund granted a waiver for program slippages. This variable is coded using the MONA dataset, the EIU country reports, and program reviews.

Figure 4.3 presents a distribution of strictly-conditional and flexible arrangements by region. As expected, the low-income countries of Sub-Saharan Africa often receive flexible
Yet, income level on its own cannot explain the level of conditionality attached to Fund arrangements. For example, even though there are gaps between the income levels of Europe, East Asia and Latin America, the frequency of non-concessional arrangements in these regions is similar.

Figure 4.3: Histogram of Strict Conditionality by Region

Receiving a waiver for policy slippages is a rare event (see Figure 4.4, Total). This holds true for all regions, albeit at different levels. European, Central and South Asian countries receive waivers more frequently than others. This variation may be explained by the role of econocrats in negotiations between these countries and the Fund.
Coding Criteria

This dissertation utilizes original data coded partially or fully by the author as the key independent and dependent variables. Examples with details of the coding criteria will be provided. In what follows, I include the biographies of three randomly-selected econocrats.

Irakli Managadze was the Chairman of the Central Bank of Georgia between 1998 and 2005. He holds an undergraduate degree in economic geography from the State University of Georgia and a Ph.D. in Economics from the Science and Research Institute of Social-Economic and Regional Problems of Georgia. From 1996 to 1998, he served as Advisor to the Executive Director representing Georgia at the World Bank.95

Manuel Ulloa Elias studied law at the National University of San Marcos and became a lawyer in 1947. He was one of the founders of the Popular Action party. He became the Minister of Finance of Peru briefly in 1968, but went to exile after the coup in that same year. Elias came back to reorganize the party in 1977, and served as the Minister of Finance again between 1980 and 1983.\textsuperscript{96}

Aftab Ghulam Nabi Kazi served as the Governor of the State Bank of Pakistan from 1978 to 1986. He completed his B.S. in Statistics and graduate degrees in Physics and Mathematics at the University of Bombay. He was the Finance Secretary of Pakistan during the 1971 crisis. In 1977, he held the position of Advisor to the President on Economic Affairs with the rank of a full cabinet minister.\textsuperscript{97}

Table 4.1: Example: Codings for education, expertise, and career

<table>
<thead>
<tr>
<th>Econocrat</th>
<th>Education</th>
<th>Expertise</th>
<th>Career</th>
</tr>
</thead>
<tbody>
<tr>
<td>Irakli Managadze</td>
<td>1</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Manuel Ulloa</td>
<td>5</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Aftab Ghulam Nabi Kazi</td>
<td>3</td>
<td>0</td>
<td>4</td>
</tr>
</tbody>
</table>

Notes. Education is originally coded as a categorical variable, for which the following undergraduate degrees are denoted with the adjacent numbers in parentheses: economics (1), business (2), law (3), engineering (4), and others (5). Expertise is coded 1 for those with graduate degrees in economics or business, 0 otherwise. Career is coded similarly with the following categories: private sector (1), central bank staff (2), civil service other than central bank staff (3), politician (4), scholar (5), international financial institutions (6).

Table 4.1 presents how these three econocrats are coded for this project. The categorizations for the education and career variables are based on Göhlmann and Vaubel’s (2007) article, as well as the general distributions within the data. Below are the graphic representations of these distributions.

\textsuperscript{96}See Elias’ obituary on http://www.independent.co.uk/news/people/obituary-manuel-ulloa-elias-1539783.html
\textsuperscript{97}Personal communication with his relatives.
Figure 4.5 shows that an overwhelming majority of econocrats have undergraduate degrees in economics, albeit more so for central bank governors than ministers of finance. The second place is occupied by the "other" category. In most low-income countries, especially those in Africa, any university degree, including those in agriculture or education, is sufficient to enter the civil service. For these econocrats, IMF workshops and graduate degree programs are crucial means of acquiring technical knowledge. The remaining two categories—law and engineering—represent prestigious educational paths in developing countries.

In terms of employment backgrounds and careers, the difference between central bankers and finance ministers is visible in Figure 4.6. More than 60 percent of the central bank governors come from either within the central bank staff or another bureaucratic agency. On the other hand, about half of all finance ministers have had political careers.

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98 This categorization is made for the office held immediately before becoming a central bank governor or finance minister. Ideally, a measure that takes into account all previous posts is preferred. Unfortunately, such an account of complete employment background with specific dates of entry and exit is rarely available.
This variation may help us distinguish between the two types of implementers mentioned in Chapter 3: partisans and technocrats. In addition, this variable is a proxy for socialization. It is safe to assume that those econocrats who spent more time in economic bureaucracy experienced more occasions for socialization with each other and their international counterparts at several conferences, workshops, and meetings. These occasions may have increased their interactions and even shaped their policy preferences.

Figure 4.6: Employment backgrounds of econocrats

![Figure 4.6: Employment backgrounds of econocrats](image)

Figure 4.7 displays the fractions of those with and without graduate degrees in economics or business administration for both groups of econocrats, with a stark contrast between the two. Central bankers tend to obtain graduate-level diplomas more often, lending them an internationally recognized certificate of expertise. This distinction may result from the need of agents to rely on expertise and asymmetric technical knowledge to convince their principals. It may also be an indicator of transnationalist, conservative policy preferences as most graduate degree programs in economics, finance and business administration adopt a
neoliberal economic doctrine (Momani 2004, Momani 2005).

Figure 4.7: Expertise of econocrats

These independent variables are used separately as well as in combination. In order to understand their joint effect, interaction variables are coded for getting both undergraduate and graduate degrees (Expertise × Education), econocrats with undergraduate degrees in economics in both seats (Education (CBG) × Education (MOF)), econocrats with graduate degrees in economics in both seats (Expertise (CBG) × Expertise (MOF)), and econocrats with central banking careers in both seats (Career (CBG) × Career (MOF)).

One of the main dependent variables of this project is program suspension. I operationalize this variable differently from program cancellations. A program is canceled when governments make public statements to terminate the agreement. These cancellations do not reflect compliance levels perfectly. For instance, some countries cancel their agreements simply because they no longer need the Fund’s assistance. For others, the cancellation of an agreement is a formality to sign another facility. A borrowing country may start with
a stand-by, and if IMF finds it appropriate, it may cancel the stand-by to proceed with an EFF. Hence, program cancellations represent a legal matter rather than a true measure of non-compliance.

My operationalization of program suspension refers to the ineligibility of all drawings due to either missing performance criteria and the inability to obtain a waiver or failing a quarterly review. The original data for this variable is coded by Martin S. Edwards (2002). When coding for suspension, he relied on multiple sources of information, including the IMF archives, the EIU country reports, and the 1995 Schadler reports. Edwards used reliability checks to ensure that his sources did not contradict one another. He reports that 13 out of 14 Fund programs, covered in all sources, point to the same conclusion. Edwards underlines that the probability of this result occurring due to chance is .0003.

For the 1995-2008 period, I used the same sources. Fortunately, instigated by the recent calls for greater transparency, the IMF archives provide a more comprehensive account of previous programs. Although most reports simply use vague descriptions, such as “[the] conditions were not met” or “[the] program went off-track,” instead of detailing the reasons behind the end result, they still present the most accurate information on suspension. The quarterly EIU reports mention the status of IMF agreements under the Economic Policy section. Below are three examples taken from these sources.

**Cameroon 2000:**

*EIU Country Report:*

4th Quarter 2004: 7 “Because of fiscal slippages, Cameroon’s current PRGF arrangement, which was due to expire in Dec. 2004, was declared off-track in August.”

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99 A new type of IMF publication, namely the Ex Post Assessment of Longer-Term Program Engagement, analyzes past programs and the conditions under which they succeeded or failed.

100 If and when there is a discrepancy between these sources, I have checked the main news sources through the search engine LexisNexis Academic for clarification.
IMF Archives:

IMF Country Report No. 03/401 December 2003 Staff Report for the Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility: “Discussions on the fourth review under the PRGF arrangement were protracted, reflecting some slippages in policy and structural reform implementation and complications in reconciling government financial operations. [...] The staff recommends that the Executive Board grant a waiver for the nonobservance of the end-September 2002 performance criterion on net bank credit to the government, complete the fourth review, and extend the Fund arrangement and the Fund HIPC Initiative interim assistance through December 20, 2004.”

Press Release No. 04/231 November 1, 2004: “It was agreed that discussions should resume soon on an economic program for Cameroon that would seek to enhance economic growth and contribute to poverty reduction, as well as gain renewed financial support from the Fund. A new Poverty Reduction and Growth Facility arrangement can be put in place after a sustained period of implementation of reform measures. The successful implementation of a program supported by a new PRGF arrangement would allow Cameroon to reach its completion point under the Heavily Indebted Poor Countries Initiative and obtain an important reduction of its external debt.”

Result: There is no further program reviews beyond December 2003. IMF press releases in 2004 indicate suspension of the PRGF arrangement.

Ukraine 1998

EIU Country Report:

4th Quarter 1998: 7 “Although the IMF has retained a high degree of control by disbursing its loan in a series of small tranches, it is at present unlikely to cut Ukraine
off completely as long as it considers there to be a satisfactory general movement towards reform.”

4th Quarter 1999, 7-8 “Preoccupation with the upcoming presidential election caused some slippage in the government’s adherence to IMF conditions. As a result, the Fund suspended lending to Ukraine until after the presidential election.”

3rd Quarter 2002, 18 “Ukraine’s $2.6 billion extended fund facility (EFF) with the IMF expired in early September after four years of suspensions, fitful disbursements and occasional reform slippages. A telling end came with the Fund’s decision not to authorise any final disbursements in the last weeks of the programme, thereby prolonging the year-long break in payments first prompted in September 2001 by slow reform progress. Since early 2000 Ukraine’s government has generally failed to match its achievements in preserving macroeconomic stability with a corresponding degree of reform implementation. The latest interruption in IMF lending follows an even longer 15-month suspension in 1999-2000. As a result of these lengthy breaks, Ukraine in the end received only $1.5 billion of the $2.6 billion originally approved by the Fund in 1998.”

IMF Archives:

Public Information Notice No. 99/38 April 27, 1999: “Executive Directors regretted that Ukraine’s adjustment program had gone off track soon after approval of the Extended Arrangement, but at the same time welcomed the authorities’ efforts to maintain relative stability despite severe external shocks.”

News Brief No. 00/77 September 6, 2000: “A number of Directors stressed that they hoped the authorities, having implemented procedures for accurate reporting, and safeguards on the use of IMF resources, would redouble their efforts to put their economic reform program back on track. Directors noted that the reform momentum is still insufficient, but expressed the hope that sufficient progress will be made on the outstanding issues so that a
strong program, with persuasive prior actions, can be presented to the Executive Board for its consideration. These efforts are needed to provide a strengthening of Ukraine’s growth prospects, and an improvement in standards of living for the Ukrainian population.”

Result: Due to program slippages and the misreporting of foreign reserves of the National Bank of Ukraine, the EFF was suspended in 2000.

Albania 1998

EIU Country Report:

3rd Quarter 2001: 18 “Albania continues to receive IMF support. In July the IMF approved payment of the final tranche of SDR 4.7m (US$6m) under the country’s first poverty reduction and growth facility (PRGF-1) which expired on July 31st. An IMF mission is to arrive in October to negotiate a PRGF-2.”

IMF Archives:

News Brief No. 01/59 July 13, 2001: “The authorities are successfully implementing their program supported by their PRGF arrangement with the Fund. Sound macroeconomic management and the implementation of structural reforms have resulted in continued high growth and financial stability in Albania.”

IMF Country Report No. 01/117, July 2001, 21: “In view of the authorities’ strong performance, including observance of all end-March 2001 quantitative performance criteria and the end-June 2001 structural performance criterion on the Savings Bank, the staff recommends the completion of the final review.”

Result: The 1998 program was implemented fully by Albanian authorities, and followed by two similarly successful programs in 2002 and 2006.

In addition to program suspension, I also use a continuous variable, implementation,
to strengthen the analysis of partial implementation. Suspension occurs if and when the borrowing state passes a certain threshold of poor implementation. Partial implementation stands above that threshold and is tolerated by the Fund, which grants waivers for missed program conditions. Because there are no official statements of partial implementation, it is difficult to capture this form of non-compliance. The most popular proxy for implementation level is the percentage of tranche withdrawn (Conway 1994, Killick 1995). The Fund disburses its loans in tranches or installments depending on the results of scheduled reviews. Hence, the assumption is that the ratio of disbursed loan to the originally approved loan amount represents the implementation level.

Some scholars like Killick (1995) use arbitrary cutoff points (e.g. 20-25 percent) to code non-compliance. This approach, however, may overestimate non-compliance because some states choose to treat their agreements with the Fund as precautionary. For example, Brazil treated its 2002 program as precautionary beginning in 2004 and repaid its debts to the IMF in early 2005. El Salvador presents an extreme case of this behavior: no purchases were made under any of its formally non-precautionary programs since 1992. In order to avoid the problem of conflating poorly-implemented programs with the precautionary ones, I coded a dummy variable. This variable takes the value of 1 for all formally precautionary programs and those treated as such by the borrowing country.

Killick’s measure is also a cross-sectional one that does not vary annually. This suggests that information on the variance of implementation levels within individual programs will be lost. Considering the main independent variables in this dissertation, such a loss might be critical. For example, the central bank governor of country A may change mid-program, and if one uses the same disbursed-to-approved ratio for all program years, one cannot detect any possible correlation between this change and the implementation level.

101 See IMF Press Release No. 05/275, December 13, 2005 “Brazil Announces Intention to Complete Early Repayment of Entire Outstanding Obligations to the IMF.”

102 The “precautionary” status of a program, whether formally or informally deemed as such, is mentioned in press releases, program reviews, and staff surveys in the IMF archives.
Therefore, I constructed an annual measure of implementation ratio that ranges from 0 to 1. When coding this variable, I used information on the approved and disbursed amounts of loans in the archived MONA data.\textsuperscript{103}

Table 4.2 shows the difference between a cross-sectional and an annual measure for the same country. With a cross-sectional measure of implementation, Azerbaijan’s performance seems quite satisfactory. This overestimation of implementation level, however, does not correlate with the program suspensions in 2000 and 2004. Why would the Fund suspend its program with Azerbaijan while the ratio of disbursed-to-approved loans for the 1996 and 2000 programs were .88 and .80 respectively? This dilemma is solved if I use an annual measure of implementation. With this approach, I discover that Azerbaijan’s compliance with IMF conditions had fallen dramatically throughout both programs, which resulted in the suspensions.

Table 4.2: Example: Cross-sectional and annual measures of implementation

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Agreement</th>
<th>Program</th>
<th>Implementation (cross-sectional)</th>
<th>Implementation (annual)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Azerbaijan</td>
<td>1995</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>1996</td>
<td>1</td>
<td>1</td>
<td>.88</td>
<td>1</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>1997</td>
<td>0</td>
<td>1</td>
<td>.88</td>
<td>.79</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>1998</td>
<td>0</td>
<td>1</td>
<td>.88</td>
<td>.69</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>1999</td>
<td>0</td>
<td>1</td>
<td>.88</td>
<td>.35</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>2000</td>
<td>0</td>
<td>1</td>
<td>.88</td>
<td>0</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>2001</td>
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<td>.80</td>
<td>1</td>
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<tr>
<td>Azerbaijan</td>
<td>2002</td>
<td>0</td>
<td>1</td>
<td>.80</td>
<td>.5</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>2003</td>
<td>0</td>
<td>1</td>
<td>.80</td>
<td>.33</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>2004</td>
<td>0</td>
<td>1</td>
<td>.80</td>
<td>.66</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>2005</td>
<td>0</td>
<td>1</td>
<td>.80</td>
<td>0</td>
</tr>
</tbody>
</table>

Notes. “Agreement” refers to whether or not an agreement is signed with the Fund. “Program” refers to whether or not country is under an IMF agreement.

\textsuperscript{103}In calculations, the disbursements made in the first three months of each year are counted for the previous year because the reviews that release those disbursements evaluate the implementation performance of the previous year.
4.2.3 Estimation Techniques

In this project, of 3906 country-years, only 40 percent comprise the portion spent under IMF programs. More than half of the time, member states were not under the Fund’s scrutiny. Therefore, their implementation and suspension scores are missing. Is it possible to treat these missing data as randomly-generated?

Member states that sign an agreement with the Fund constitute a self-selected sample (or “incidental” selection), not a random one (Goldberger 1981). It is likely that some countries refrain from entering a program to avoid conditionality. Some governments that could not or would not implement IMF conditions may choose not to participate in any IMF facilities. Thus, by ignoring this possibly non-random process of signing an agreement, I may overestimate the implementation levels in the population. To correct this non-randomness, I need to address the sample selection bias in my regression techniques.

A sample selection bias exists when it is not possible to use statistical inference as a bridge between the sample of data and the entire population of cases. If the sample we observe is systematically different from the population, our inference based on the sample may be biased and therefore not applicable to all the cases (Achen 1986). For example, the sample of voters for Party A comprises those individuals who have chosen to vote. We know that voters tend to be more educated than the non-voters; hence, the sample of data is not representative of the population with regard to education level. This becomes a problem if the data generating process is correlated with the dependent variable (King 1989).

Heckman (1979) has argued for considering the sample selection bias as a specification error. He developed a model in the context of a wage equation. The sample for this case comprises only those in the labor force, which means we are likely to get biased results when estimating, for example, the effects of education on wage rates. If there is a distinction
between lazy and industrious people that affects both the education level as well as the wages, then we run into the risk of using a sample of outliers—industrious people who tend to get higher education, join the labor force and earn higher wages. Heckman addresses this issue by treating it as an omitted variable problem. In this example, the omitted variable is whether or not an individual is industrious. An estimate of the omitted variable would solve the problem of sample selection bias.\footnote{A simple formal representation of this technique is in Appendix C.}

In congruence with the model specifications, I use Heckman’s maximum likelihood and censored probit estimators for the continuous and binary dependent variables respectively. To control for heteroskedasticity, I employ robust standard errors throughout this project. Following Beck, Katz, and Tucker (1998), I add a set of cubic splines to the estimation to address the possible autocorrelation in the binary dependent variables (Tucker 1999). Finally, to account for regional effects, a set of dummy variables for the World Bank geographical regions\footnote{These are East Asia and the Pacific, Europe and Central Asia, Latin America and the Caribbean, Middle East and North Africa, South Asia, and the Sub-Saharan Africa.} are created and plugged into relevant estimations.

### 4.3 Findings

In this section, I develop four models and report their findings. These models empirically test the hypotheses in Tables 3.2 and 3.3. In order to proceed, first, I present a summary of the main explanatory variables in these hypotheses and their expected correlation with the four dependent variables.

Second, I focus on the selection process through which states enter IMF programs. The literature uses a set of economic measures as determinants of the selection, such as debt service ratio, reserves measured in months of imports, GDP growth.\footnote{In addition to those reported in Table 4.4, other independent variables such as budget deficit and inflation...} The baseline
Table 4.3: Expected Signs of Coefficients

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Implementation</th>
<th>Program Suspension</th>
<th>Strict Conditionality</th>
<th>Waiver</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth\textsuperscript{2,4,5}</td>
<td>–</td>
<td>+</td>
<td>−/+</td>
<td></td>
</tr>
<tr>
<td>Reserves\textsuperscript{2,4,5}</td>
<td>–</td>
<td>+</td>
<td>−/+</td>
<td></td>
</tr>
<tr>
<td>Debt Service\textsuperscript{2,4,5}</td>
<td>+</td>
<td>–</td>
<td>−/+</td>
<td></td>
</tr>
<tr>
<td>Borrowing Experience\textsuperscript{7}</td>
<td>+</td>
<td>–</td>
<td>−/+</td>
<td></td>
</tr>
<tr>
<td>Career\textsuperscript{14a}</td>
<td>+</td>
<td>–</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>Education\textsuperscript{15}</td>
<td>+</td>
<td>–</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>Expertise\textsuperscript{10,11,13}</td>
<td>+</td>
<td>–</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>Expertise×Education\textsuperscript{10,11}</td>
<td>+</td>
<td>–</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>Expertise×Education\textsuperscript{13}</td>
<td>+</td>
<td>–</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>(conditional on autonomy)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time in Office\textsuperscript{14b}</td>
<td>+</td>
<td>–</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes. Numbers attached to the independent variables correspond to hypotheses in Tables 3.2 and 3.3.

The results confirm the conventional wisdom about the impact of debt service, reserves, and GDP growth. Politicians seek the Fund’s help when economic fundamentals compel them to. As expected, countries that are more integrated into the international economic system through trade seem to be more likely to enter IMF programs. A similar prospect exists for economies with any form of floating exchange rates. In other words, countries that peg their currencies tend to refrain from IMF agreements. These correlations support the argument that the IMF’s clients are countries in balance-of-payments crises. As the money and quasi-money supply to GDP ratio (M2) reminds us, these are also countries that face liquidity problems.

are used as well. These variables were not statistically significant and did not add to the overall performance of the model.
Table 4.4: Baseline Selection Model

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Service</td>
<td>.0227 (0.0066)</td>
</tr>
<tr>
<td>Reserves</td>
<td>-.0329 (0.0147)</td>
</tr>
<tr>
<td>GDP per Capita</td>
<td>-.00008 (0.00002)</td>
</tr>
<tr>
<td>Growth</td>
<td>-.0235 (0.0071)</td>
</tr>
<tr>
<td>Trade</td>
<td>.0022 (0.0011)</td>
</tr>
<tr>
<td>Fixed Exchange Rate</td>
<td>-.5623 (0.0723)</td>
</tr>
<tr>
<td>M2</td>
<td>-.0056 (0.0017)</td>
</tr>
<tr>
<td>Constant</td>
<td>1.6401 (1.1174)</td>
</tr>
</tbody>
</table>

N = 1846
Cubic spline $\chi^2$ test: 462.02 ($p > 0.0000$)
Percent Correctly Predicted: 78.7 %
Robust standard errors are in parentheses.
Coefficients that are statistically significant at 0.05 level or lower are marked with bold type.

The $\chi^2$ test on the cubic splines is highly significant, confirming the existence of autocorrelation in this model. By including these splines, I account for this issue.

The selection bias becomes a problem because these same measures of overall economic robustness affect both the selection and the implementation stages of IMF agreements. To control for selection, I have to use the information from this baseline model in the outcome equations. The instrument that carries this information is the hazard rate from the predicted values of the baseline model. This hazard rate or lambda represents the probability of being under a Fund program and controls for the selection bias when used in the outcome model.\textsuperscript{107}

\textsuperscript{107}Originally, Heckman’s (1979) technique was called a “two-step” estimation. The “heckman” command in Stata 9, however, fits regression models with selection using full maximum likelihood by default.
Using this methodology, the following subsections summarize the findings for each of the four dependent variables.

4.3.1 Determinants of Implementation

The dependent variable in this section is the continuous implementation measure based on the disbursement ratio. The model below is a Heckman estimation, which tests whether a country was under an IMF-sponsored program and whether loans for that country were disbursed as agreed following the observance of the scheduled performance criteria. The model includes four sets of variables: actor-specific variables, variables for bureaucratic autonomy, variables for domestic and international politics, and economic variables.

The right side of Table 4.5 shows the selection stage. States appear to make their participation decisions based on economic conditions –debt, reserves, fixed exchange rates, growth. In terms of political variables, both the Fund quota and receiving aid from the US are positively correlated with signing an agreement with the IMF. These results are in line with Realist arguments in the literature. Though US influence is weak, a one unit (.01) increase in the amount of aid improves the probability to sign an agreement only by .04 percent. Interestingly, the similarity measure is negatively correlated with program participation. States voting similarly with the US are less likely to participate in IMF programs. This effect may be explained by the availability of non-IMF funds for close allies of the US. The only significant actor-level variable is Career (CBG). Central bank governors with careers within the agency are less likely to support the decision to sign an IMF agreement. Yet, as we shall see, once an agreement is signed, their influence on implementation is positive. Hence, experienced central bankers may refrain from agreement because of their intrinsic knowledge of what IMF conditions entail and how their governments might respond.
<table>
<thead>
<tr>
<th></th>
<th>Implementation Model</th>
<th>Selection Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education (CBG)</td>
<td><strong>.3875 (.1122)</strong></td>
<td>Education (CBG)</td>
</tr>
<tr>
<td>Career (CBG)</td>
<td><strong>.1333 (.0506)</strong></td>
<td>Career (CBG)</td>
</tr>
<tr>
<td>Education (MOF)</td>
<td><strong>.4328 (.1243)</strong></td>
<td>Expertise (CBG)</td>
</tr>
<tr>
<td>Career (MOF)</td>
<td>.1442 (.1410)</td>
<td>Expertise (MOF)</td>
</tr>
<tr>
<td>Expertise (MOF)</td>
<td>-.0322 (.1539)</td>
<td>Education×2</td>
</tr>
<tr>
<td>Education×2</td>
<td>-.4039 (.1319)</td>
<td>Expertise×Education</td>
</tr>
<tr>
<td>Career×2</td>
<td>-.0430 (.0134)</td>
<td>US Aid</td>
</tr>
<tr>
<td>US Aid</td>
<td>-.0001 (.0001)</td>
<td>Similarity</td>
</tr>
<tr>
<td>Similarity</td>
<td>-.5019 (.1108)</td>
<td>Debt Service</td>
</tr>
<tr>
<td>Debt Service</td>
<td>.0048 (.0026)</td>
<td>Reserves</td>
</tr>
<tr>
<td>Reserves</td>
<td>-.0226 (.0101)</td>
<td>Growth</td>
</tr>
<tr>
<td>Growth</td>
<td>-.0212† (.0123)</td>
<td>Debt Service</td>
</tr>
<tr>
<td>Fixed Exchange Rates</td>
<td>-.1065 (.0684)</td>
<td>Growth</td>
</tr>
<tr>
<td>Irregular Turnover</td>
<td>.0076 (.1087)</td>
<td>Growth</td>
</tr>
<tr>
<td>Bureaucratic Time Horizon</td>
<td>.0015 (.0132)</td>
<td>Inflation</td>
</tr>
<tr>
<td>Turnover Number</td>
<td>-.1906 (.0978)</td>
<td>Turnover Number</td>
</tr>
<tr>
<td>Legal Duration</td>
<td>-.0125 (.0418)</td>
<td>Legal Duration</td>
</tr>
<tr>
<td>Time in Office</td>
<td>-.0061 (.0095)</td>
<td>Time in Office</td>
</tr>
<tr>
<td>Borrowing Experience</td>
<td>-.0173 (.0061)</td>
<td>Borrowing Exper</td>
</tr>
<tr>
<td>Waiver</td>
<td>.0226 (.0553)</td>
<td>Waiver</td>
</tr>
<tr>
<td>Strict Conditionality</td>
<td>-.3252 (.0830)</td>
<td>Strict Conditionality</td>
</tr>
<tr>
<td>Fund Quota</td>
<td>-.0420 (.0306)</td>
<td>Fund Quota</td>
</tr>
<tr>
<td>Democracy</td>
<td>.1480 (.0571)</td>
<td>Democracy</td>
</tr>
<tr>
<td>Fractionalization</td>
<td>-.1959† (.1109)</td>
<td>Fractionalization</td>
</tr>
<tr>
<td>Constant</td>
<td><strong>1.6726 (.5954)</strong></td>
<td>Constant</td>
</tr>
</tbody>
</table>

Coefficients for regional dummies are omitted. Robust standard errors are in parantheses. Coefficients that are statistically significant at 0.05 level or lower are marked with bold type. † indicates marginal significance.

On the left side of the table, I report the implementation model. As expected (see Table 4.3), actor-specific variables are significant and positively related to implementation. If a variable appears in both selection and outcome equations, the coefficient in the outcome equation has to be corrected in order to take into account its presence in the selection equation. Using Sigelman and Zeng’s (1999) formula, I calculated these adjustments. Unless otherwise mentioned, these “real” coefficients are very close to those generated by the Heckman estimation method. For example, reported and adjusted

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108If a variable appears in both selection and outcome equations, the coefficient in the outcome equation has to be corrected in order to take into account its presence in the selection equation. Using Sigelman and Zeng’s (1999) formula, I calculated these adjustments. Unless otherwise mentioned, these “real” coefficients are very close to those generated by the Heckman estimation method. For example, reported and adjusted
Education×Expertise) are omitted from the model specification due to their lack of influence. Instead, two interaction variables are included: Education×2 and Career×2 refer to having central bank governors and finance ministers with similar educational (BA in economics or business) and occupational (previous posts in the central bank) paths, respectively. Both have significant and negative effects on implementation level. My theory is not specific about the number of econocrats and their joint influence. In other words, I have no reason to believe that an increase in the number of econocrats in key institutions would result in better implementation. Considering the Ministry of Finance as a political post, it is possible that I am capturing a possible conflict between politicians and econocrats. Without appropriate technical knowledge, politicians may delegate the details of the implementation process to econocrats. On the other hand, if they share the technical knowledge of econocrats, then econocrats are apt to lose the advantage of asymmetric information. This scenario may lead to conflicts within the government that affects implementation negatively. In order to move beyond speculation, I will return to this issue in Chapter 5.

Inclusion of the interaction terms changes the interpretation of the Education and Career variables. Because of the interaction term Education×2, the coefficient of Education (CBG) (.387) reflects the effect of having a CBG with a bachelor’s degree in economics or business only when the MOF has no such education. Below are the coefficients adjusted considering the interaction terms. Interestingly, a central banker’s influence on implementation is positive only when the finance minister lacks technical knowledge. When the finance minister joins a central banker in terms of educational background, their joint effect, as well as the individual effect of the central banker turns negative.

In addition to policy preferences, I expect domestic institutions to affect implementation level. The proxies I use for bureaucratic autonomy are Turnover Number and Democracy. The annual number of actual turnovers is an indicator of whether or not the central coefficients for the Education (CBG) are .387 and .391 respectively.
banker, in particular, and bureaucracy, in general, is susceptible to political fluctuations. In other words, the extent of job security for the implementers of IMF-sponsored policies will be reflected in these numbers. On the other hand, despite discussion on the incompatibility of democratic accountability and central bank independence, democratic countries tend to harbor autonomous agencies (Bernhard 2002). Hence, whether or not a country is classified as democratic may offer insight into the bureaucratic autonomy within that system. The results in Table 4.5 suggest that implementation improves with lower turnover numbers and the higher probability of categorization as a democracy.\textsuperscript{109}

The economic variables in the outcome model demonstrate effects as expected in Hypothesis 2. Economic hardship is positively correlated with implementation. As its debt service increases and reserves decrease, a borrowing country is more likely to implement IMF conditions fully. In other words, the worse the economic conditions are, the better the implementation process.

On the other hand, Borrowing Experience and Time in Office do not have the expected signs (Hypotheses 7 and 14b, respectively). The coefficient for length of time spent in office is not significant. This result might stem from data restrictions. I have coded this

\textsuperscript{109}Fractionalization has a marginally significant negative effect on implementation. This finding makes a reference to the “program ownership” idea of the Fund. In addition, I included an interaction variable for fractionalized democracies, but the Wald test suggested that I cannot reject the null hypothesis that the coefficient on this variable is in fact zero.
variable as time spent in the current post rather than time spent in the economic bureaucracy. Socialization, considered a long-term process, should be treated beyond one’s time in his/her current post. Hence, this hypothesis should be tested again when more detailed biographical data is available for the entire sample or its subset.

The negative and significant sign of Borrowing Experience shows that states learn, but what they learn is partial implementation. As the number of years spent in IMF agreements increases, states become less likely to implement IMF conditions fully. Of course, this relationship might also be picking up on the structural problems of chronic borrowers. That is why I have also run this estimation with regional dummies. The results, however, are essentially the same. Moreover, as we shall see in Section 4.3.3, Borrowing Experience decreases the probability of facing strict conditionality. In accordance with Hypothesis 7, the more they borrow, the more flexible their agreements become. Though they still end up with partial implementation. States with vast IMF experience might be learning how to receive flexible conditions, implement partially, and get away with it as they continue to sign consecutive agreements.

Table 4.5 also points out that selection bias was indeed a problem for this data-generating process. The rho coefficient is positive and significant. This proves that the implementation model cannot be considered apart from the agreement model. As suggested before, the negotiation and implementation stages are interdependent and should be analyzed together. I refrain from interpreting the sign of the covariance term, as it is a byproduct of the model specification. Generally speaking, a positive rho coefficient means that unobservables in the selection and outcome models are positively correlated with one another.

In order to test the robustness of the results, I run the same model with additional economic variables, as well as different measures of key variables such as growth, reserves and debt service. For example, I re-estimated the model with lagged total debt service instead of a lagged debt service ratio (as % of GNI), or reserves as percentage of total external
debt instead of reserves measured in months of imports. I also added trade, M2 and budget
deficit variables, and the results were unchanged. I used regional dummies for Latin America,
Middle East, Sub-Saharan Africa, and South Asia, as well as a dummy variable for fixed
exchange rate regimes in both stages of the model. Even though the results were substantially
the same, the model chi square was improved with these additions. All the regional dummies
had negative and significant coefficients at the selection level, which suggests that countries
from these regions are less likely to sign IMF agreements. At the outcome stage, only Latin
America and Sub-Saharan Africa had negative and significant coefficients. Adopting a fixed
exchange rate regime seems to be negatively correlated with entering a Fund program, but
loses its significance at the implementation stage. This is predictable, as one of the first
policy recommendations suggested by the IMF is for borrowing countries to liberalize their
exchange rate regime.

Though statistical significance is important, it says little about the substantive effects
of the key independent variables. Table 4.7 reports the marginal effects for the expected value
of implementation conditional on being observed ($E(y \mid y \text{ observed})$). For each scenario, the
independent variable of interest was modified while holding others at their mean values.

The baseline implementation ratio, for which all independent variables are held at
their means, shows that partial implementation is the expected outcome of the IMF pro-
grams. The upper limit of variance in implementation, as I modify the key independent vari-
able is around 40 %, close to the actual average mentioned in the literature (Ivanova 2003).
This finding strengthens the argument of partial implementation being an equilibrium. In
other words, both IMF officials and borrowing countries sign agreements knowing that devi-
ations from the agreement will occur. The extent of partial implementation and the IMF’s
response to this outcome are contingent on some domestic factors.

First, economic fundamentals are crucial in both the negotiation and implementation
stages. Countries with low international reserves, low growth, and high debt are more likely
to sign and implement IMF agreements.

Second, the educational backgrounds of econocrats in economics or business—an indicator of conservative policy preferences—affect implementation positively.¹¹⁰ Interestingly, the marginal effect of CBG’s prior occupation seems to be negative, but insignificant. This result may

<table>
<thead>
<tr>
<th>Baseline Expected Level of Implementation</th>
<th>32 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario</td>
<td>Change</td>
</tr>
</tbody>
</table>
| When CBG’s degree is in economics or business, and MOF’s degree is not | Increases by 11.8%*  
(Rises to 35.7 %) |
| When MOF’s degree is in economics or business, and CBG’s degree is not | Increases by 14.1%*  
(Rises to 36.5 %) |
| When both CBG and MOF have degrees in economics or business | Decreases by 13%*  
(Falls to 27.8 %) |
| When CBG has a central banking career and MOF does not. | Decreases by 1.9 %  
(Falls to 31.3 %) |
| When both CBG and MOF have central banking careers | Decreases by 1.3%*  
(Falls to 31.5 %) |
| Increase borrowing experience by 1 year | Decreases by 0.5%*  
(Falls to 31.8 %) |
| Increase turnover number by 1 unit | Decreases by 6%*  
(Falls to 30.8 %) |
| When CBG’s degree is in economics or business and turnover number is zero | Increases by 8.3%*  
(Rises to 34.66 %) |
| When CBG’s degree is in economics or business and turnover number is one | Decreases by 10.4%*  
(Falls to 28.65 %) |
| When CBG’s undergraduate and graduate degrees are in economics or business and turnover number is zero | Increases by 23.4%*  
(Rises to 39.5 %) |
| When CBG’s undergraduate and graduate degrees are in economics or business and turnover number is one | Increases by 0.3%*  
(Rises to 32.1 %) |
| Being a democracy | Increases by 4.7%*  
(Rises to 33.5 %) |
| Increase fractionalization by 1 unit | Decreases by 6.1%*  
(Falls to 30 %) |
| Increase debt service ratio to maximum | Increases by 20.8%†  
(Rises to 38.6 %) |
| Decrease reserves to minimum | Increases by 6.5%*  
(Rises to 34 %) |
| Increase similarity to maximum | Decreases by 24.8%*  
(Falls to 24 %) |

* indicates a statistically significant change.  
† indicates marginal significance.
the combined effect of two such econocrats as heads of monetary and fiscal policy-making is negative. As mentioned before, this change may also be an outcome of domestic conflicts of interests between partisans and technocrats.

Third, institutional structure—especially delegation—constitutes another important factor. Countries with higher bureaucratic autonomy are more likely to implement the agreements fully. One unit increase in the turnover number of central bankers decreases implementation by 6 percent. Conventional wisdom leads us to believe that democracies would be more comfortable with the issue of delegation than non-democracies. Here, being a democracy increases implementation by 4.7 percent. I have also run marginal effects using turnover number and educational background together. With a conservative and autonomous econocrat in office, the expected level of implementation increases by 2.66 percent. On the other hand, a conservative econocrat without institutional autonomy has a negative effect on implementation. A similar, albeit marginally significant, effect is detected for Expertise × Education. I again estimated the implementation model with the Expertise × Education variable, and, as mentioned before, it is found to be not significant. Its marginal effect, however, is significant at the 0.07 level. This effect is more pronounced conditional on bureaucratic autonomy and disappears as turnover number increases. These results show that there is weak evidence for Hypothesis 13: Conservative policy preferences are positively correlated when autonomy is assumed.

These results also support the Realist argument that US allies are favored in IMF programs. This effect, however, is stronger at the selection stage. At the outcome stage, US Aid has no significant influence and only the Similarity measure stands. Countries with UN voting records similar to the United States are less likely to sign IMF agreements. They are also less likely to implement conditions to agreements that they do sign.

be due to the way interactive terms are interpreted by the mfx command in Stata 9. I will check the effect with margins command of Stata 12 in the future.
It is also possible to calculate the marginal effects for the probability of being observed. The baseline probability of signing an agreement with the IMF is 31.5 percent. Even though actor-level variables all have negative signs, the Expertise×Education variable has a positive and marginally significant coefficient. With all other variables at their means, having an expert conservative CBG increases the probability of signing an IMF agreement by 21.8 percent. This effect is significant at the .001 level. Econocrats with policy preferences similar to those of IMF officials, then, are more likely to negotiate and implement Fund-sponsored programs. Now, let us consider whether or not they affect the suspension decision.

4.3.2 Determinants of Program Suspension

The dependent variable in this section is the binary suspension measure. The model below is a Heckman probit estimation, which tests whether a country was under an IMF-sponsored program and whether or not that program was suspended, defined as ineligibility for all the drawings of an arrangement.

Table 4.8 confirms my suspicions of selection bias. The rho coefficient is negative and significant. Considering that compliance improves with a higher implementation ratio and worsens with a higher suspension probability, the change in the rho coefficient’s sign is expected. This suggests that the unobservables are negatively correlated with one another. For example, a lack of program ownership by the borrowing government may be an unobserved variable that is negatively related to signing an agreement with the Fund, but positively related to program suspension.

Similar to the previous one, I revisited this model by estimating additional economic variables to test the robustness of the results. Overall, the key findings on actor-level vari-
### Table 4.8: Determinants of Program Suspension

<table>
<thead>
<tr>
<th></th>
<th>Suspension Model</th>
<th></th>
<th>Selection Model</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Education (CBG)</td>
<td>.4663 (.1948)</td>
<td>Education (CBG)</td>
<td>-.3506 (.1171)</td>
<td></td>
</tr>
<tr>
<td>Career (CBG)</td>
<td>.0777 (.1068)</td>
<td>Career (CBG)</td>
<td>-.2367 (.0631)</td>
<td></td>
</tr>
<tr>
<td>Expertise (CBG)</td>
<td>.5877 (.3580)</td>
<td>Expertise (CBG)</td>
<td>-.4073 (.1920)</td>
<td></td>
</tr>
<tr>
<td>Expertise×Education</td>
<td>-.9196 (.3927)</td>
<td>Expertise×Education</td>
<td>.7168 (.2135)</td>
<td></td>
</tr>
<tr>
<td>US Aid</td>
<td>-.0003 (.0002)†</td>
<td>US Aid</td>
<td>.0010 (.0001)</td>
<td></td>
</tr>
<tr>
<td>Similarity</td>
<td>.1664 (.2318)</td>
<td>Similarity</td>
<td>-.2088 (.0968)</td>
<td></td>
</tr>
<tr>
<td>Debt Service</td>
<td>-.0077 (.0039)</td>
<td>Debt Service</td>
<td>.0417 (.0069)</td>
<td></td>
</tr>
<tr>
<td>Reserves</td>
<td>.0209 (.0219)</td>
<td>Reserves</td>
<td>-.0147 (.0117)</td>
<td></td>
</tr>
<tr>
<td>Growth</td>
<td>-.0053 (.0120)</td>
<td>Growth</td>
<td>-.0225 (.0061)</td>
<td></td>
</tr>
<tr>
<td>Fixed Exchange Rates</td>
<td>.4621 (.1483)</td>
<td>Fixed Exchange Rates</td>
<td>-.5554 (.0642)</td>
<td></td>
</tr>
<tr>
<td>Irregular Turnover</td>
<td>-.3017 (.2569)</td>
<td>Inflation</td>
<td>-.0015 (.0004)</td>
<td></td>
</tr>
<tr>
<td>Bureaucratic Time Horizon</td>
<td>-.0147 (.0262)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turnover Number</td>
<td>.5299 (.2458)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal Duration</td>
<td>-.0992 (.1173)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time in Office</td>
<td>.0177 (.0225)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Borrowing Experience</td>
<td>.0053 (.0113)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Waiver</td>
<td>-.3668† (.2075)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strict Conditionality</td>
<td>.3056 (.1562)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fund Quota</td>
<td>-.0107 (.0737)</td>
<td>Fund Quota</td>
<td>-.1424 (.0229)</td>
<td></td>
</tr>
<tr>
<td>Democracy</td>
<td>-.1931 (.3009)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fractionalization</td>
<td>.4421† (.2619)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Democ×Frac</td>
<td>.1301 (.5013)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>-.4781 (1.453)</td>
<td>Constant</td>
<td>3.0872 (.4388)</td>
<td></td>
</tr>
<tr>
<td>Rho</td>
<td>-.8907</td>
<td>N</td>
<td>1129</td>
<td></td>
</tr>
<tr>
<td>Rho χ²</td>
<td>.044</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Model χ²</td>
<td>.0001</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Coefficients for regional dummies and χ² results for cubic splines are omitted. Robust standard errors are in parentheses. Coefficients that are statistically significant at 0.05 level or lower are marked with **bold** type. † indicates marginal significance.

Variables are very robust. The actor-level variables for finance ministers and related interaction variables are dropped from the model because Wald tests suggest that I cannot reject the null hypothesis that their coefficients are in fact zero. I also added cubic splines and regional dummies, which improved the model according to the chi square results. All the coefficients for cubic splines were positive and significant, confirming the rationale for using them. The results for the regional dummies showed that only clients from South Asia and the Middle East are more likely to get suspended. The difference from the last section might mean
that even though Latin American and Sub-Saharan borrowers implement partially, these deviations do not result in program suspensions.

The selection model shows that economic variables are again important in making the decision to sign an agreement. Countries with high debt and low growth are more likely to borrow from the Fund. High inflation and a fixed exchange rate regime discourage states from borrowing, whereas being a recipient of American financial aid has a positive effect. It is important to note that the coefficients for inflation and US economic aid are rather small; hence, their substantive effect should be scrutinized.

In terms of actor-level variables, what I found in the implementation section becomes even more striking here. Educational background in economics or business, expertise, and career ambition are all negatively correlated with agreement selection when considered separately. It is only when a CBG has both undergraduate and graduate degrees in economics or business that he or she has a positive effect on entering a Fund-sponsored program. Table 4.9 shows that when either of the two variables is positive, the other’s individual effect turns from negative to positive. This shows that there is an important threshold for forming a policy position through socialization or the accumulation of technical knowledge.

Table 4.9: Interpreting Interactions: Selection model (Suspension)

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>When $\beta$ (Expertise (CBG)) = 0</td>
<td>$\beta$ (Education (CBG)) = −0.3506</td>
</tr>
<tr>
<td>When $\beta$ (Expertise (CBG)) = 1</td>
<td>$\beta$ (Education (CBG)) = 0.3662</td>
</tr>
<tr>
<td>When $\beta$ (Education (CBG)) = 0</td>
<td>$\beta$ (Expertise (CBG)) = −0.4073</td>
</tr>
<tr>
<td>When $\beta$ (Education (CBG)) = 1</td>
<td>$\beta$ (Expertise (CBG)) = 0.3095</td>
</tr>
</tbody>
</table>

I find a similar effect for the outcome model. Even though only Education (CBG) is significant, all three of the actor-level variables are positively related to program suspension. The interaction term, however, has a significant and negative effect. In Table 4.10, the coefficients of interacting variables are re-calculated considering their interdependence. Once again, the individual effects of Education and Expertise are reversed as the other interacting
term takes the value of 1. With truly conservative econocrats in office, program suspension becomes less likely.

Table 4.10: Interpreting Interactions: Outcome model (Suspension)

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Coefficient (β)</th>
</tr>
</thead>
<tbody>
<tr>
<td>When $\beta$(Expertise (CBG))=0</td>
<td>β(Expertise (CBG)) = .4633</td>
</tr>
<tr>
<td>When $\beta$(Expertise (CBG))=1</td>
<td>β(Expertise (CBG)) = -.4533</td>
</tr>
<tr>
<td>When $\beta$(Education (CBG))=0</td>
<td>β(Education (CBG)) = .5877</td>
</tr>
<tr>
<td>When $\beta$(Education (CBG))=1</td>
<td>β(Education (CBG)) = -.3319</td>
</tr>
</tbody>
</table>

Similar to previous findings with implementation ratio, bureaucratic stability seems to be an important factor. The number of turnovers is negatively correlated with suspension. The more bureaucratic replacements there are, the more likely the borrowing country loses its eligibility for funding. This effect might stem from two causal paths: either through the lack of bureaucratic autonomy or through the difficulty of formulating a consistent monetary policy. Democracy—another measure of delegation—has no significant effect.

In terms of program content, the level of conditionality and receiving waivers are correlated with suspension. Countries that receive waivers are less likely to be sanctioned. A possible explanation is that by granting waivers the Fund increases its commitment to the future of an agreement, and refrains from suspending these expensive programs. From an actor-level perspective, IMF officials should consider the steps already taken when assessing a given program. To issue waivers for deviations from the agreement, IMF officials should expect the terms of the program to be implemented eventually, albeit partially. In a sense, receiving waivers signals that partial implementation will not escalate into suspension. Programs with strict conditionality, on the other hand, are more likely to be suspended. Again, intuitively, flexible conditions are easier to implement. Controlling for these effects enables us to argue that the policy preferences of econocrats have a direct effect on implementation. Waivers and conditions, however, are negotiated by the same econocrats. Therefore, the next two subsections will focus on these dependent variables.
Before moving to the negotiation stage, let us evaluate the predicted probabilities of program suspension.

Table 4.11: Predicted Probabilities of Program Suspension

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baseline Suspension Probability</td>
<td>37.3 %</td>
</tr>
<tr>
<td>When CBG has an undergraduate degree in economics or business, and no such graduate degree</td>
<td>Increases by 16.5%* (Rises to 43.4 %)</td>
</tr>
<tr>
<td>When CBG has both undergraduate and graduate degrees in economics or business</td>
<td>Decreases by 34.9%* (Falls to 24.2 %)</td>
</tr>
<tr>
<td>When conditionality is strict</td>
<td>Increases by 11.5%* (Rises to 41.5 %)</td>
</tr>
<tr>
<td>If a waiver is received for a missed target</td>
<td>Decreases by 13.8%* (Falls to 32.1 %)</td>
</tr>
<tr>
<td>Increase turnover number by 1 unit</td>
<td>Increases by 20%* (Rises to 44.7 %)</td>
</tr>
<tr>
<td>When CBG’s undergraduate and graduate degrees are in economics or business and turnover number is zero</td>
<td>Decreases by 37.8%* (Falls to 23.2 %)</td>
</tr>
<tr>
<td>When CBG’s undergraduate and graduate degrees are in economics or business and turnover number is one</td>
<td>Increases by 12.6%* (Rises to 42 %)</td>
</tr>
<tr>
<td>Increase fractionalization by 1 unit</td>
<td>Increases by 16.7%† (Rises to 43.5 %)</td>
</tr>
<tr>
<td>Having a fixed exchange rate regime</td>
<td>Increases by 17.4%* (Rises to 43.7 %)</td>
</tr>
<tr>
<td>Increase US aid to maximum</td>
<td>Decreases by 34.3%* (Falls to 24.5 %)</td>
</tr>
<tr>
<td>Increase debt service ratio to maximum</td>
<td>Decreases by 6.5% (Falls to 34.8 %)</td>
</tr>
</tbody>
</table>

* indicates a statistically significant change.
† indicates marginal significance.

The baseline probability of program suspension is 37.3 percent. This is close to Edwards’ finding of 42.3 percent, and the gap may be due to the inclusion of programs with more flexible conditionality (e.g. PRGF) as well as the expansion of the data (Edwards 2002). Figure 4.8 reveals a decrease in the number of suspensions since the late 1990s, which reflects the general trend in the total number of program years. Hence, I cannot claim that the IMF’s sanctioning behavior is changing fundamentally.

Conservative policy preferences –once ingrained in an econocrat’s undergraduate and
graduate education—decrease the probability of program suspension by 34.9 percent while holding all other independent variables at their means. If I consider this effect together with the turnover number, it becomes clear that bureaucratic autonomy is an important part of this effect. Without any change, the Expertise×Education variable sustains its negative impact on the probability of suspension, but, with just one turnover per year, program suspension becomes more likely. Still this increase in probability is far less compared to the individual marginal effect of the turnover number, 4.7 and 20 % respectively. For the first scenario, the Expertise×Education term is fixed at 1 and held at its mean (.59) for the second scenario. Hence, institutional structure and policy preferences work in conjunction.

Interestingly, the economic fundamentals seem to have an effect on implementation measure, but not on program suspension. Only the debt service ratio has a significant coefficient in the expected direction. However, it is crucial to note that its marginal effect (-6.5 %) on program suspension is not significant. This result returns us to the argument that implementation ratio and program suspension emphasize different properties of international compliance. Implementation is a process controlled by domestic actors, whereas the authority to suspend a program belongs to the Fund. Program suspension represents a threshold in
non-compliance. The decision of whether or not that threshold is passed rests with the IMF Executive Board. Thus, it is important to consider both of these measures to capture this nuance. The findings show that poor economic fundamentals affect program implementation, but not necessarily the probability of getting suspended. This result again shows that the IMF expects partial implementation and does not punish it with a categorical suspension of funds.

Similar to economic variables, Borrowing Experience, Time in Office, and Career exhibit no significant effects on program suspension. The most significant findings of this section are the joint effects of Expertise and Education, as well as their relation to bureaucratic autonomy. Deciding to suspend a program is extremely difficult for the Fund to arrive to, and there is evidence that both domestic institutions and the policy positions of implementers may influence the IMF. This influence may follow two unique routes: (1) as suggested in the implementation and suspension models, directly through policy decisions; and, (2) as will be investigated in the next two sections, indirectly through bargaining for flexible, more implementable policies.

4.3.3 Determinants of Strict Conditionality

In this model, the dependent variable is the binary variable of strict conditionality. Again I use a Heckman probit model to test whether or not a country signed an agreement with the Fund, as well as whether it was a non-concessional arrangement (SBA or EFF) or not.

Table 4.12 summarizes the results for this estimation. To begin with, the rho coefficient is negative and significant, suggesting a selection bias. Considering the slightly higher chi square for the rho, I estimated this model again using logistic regression, as well as an
**Table 4.12: Determinants of Strict Conditionality**

<table>
<thead>
<tr>
<th>Conditionality Model</th>
<th>Selection Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education (CBG)</td>
<td>-.4764† (.2620)</td>
</tr>
<tr>
<td>Career (CBG)</td>
<td>-.2283† (.1339)</td>
</tr>
<tr>
<td>Expertise (CBG)</td>
<td>.8645 (.3143)</td>
</tr>
<tr>
<td>Expertise×Education</td>
<td>-.9544 (.3756)</td>
</tr>
<tr>
<td>Similarity</td>
<td>.5966 (.2550)</td>
</tr>
<tr>
<td>Debt Service</td>
<td>.0482 (.0148)</td>
</tr>
<tr>
<td>Reserves</td>
<td>.0814 (.0316)</td>
</tr>
<tr>
<td>Growth</td>
<td>-.0517 (.0180)</td>
</tr>
<tr>
<td>Fixed Exchange Rates</td>
<td>.9698 (.1941)</td>
</tr>
<tr>
<td>Irregular Turnover</td>
<td>.6605 (.2813)</td>
</tr>
<tr>
<td>Turnover Number</td>
<td>-.3009 (.2021)</td>
</tr>
<tr>
<td>Bureaucratic Time Horizon</td>
<td>-.0680† (.0379)</td>
</tr>
<tr>
<td>Legal Duration</td>
<td>1099 (.0897)</td>
</tr>
<tr>
<td>Time in Office</td>
<td>.0043 (.0293)</td>
</tr>
<tr>
<td>Borrowing Experience</td>
<td>-.1329 (.0192)</td>
</tr>
<tr>
<td>Fund Quota</td>
<td>.7261 (.0979)</td>
</tr>
<tr>
<td>Democracy</td>
<td>.9588 (.1821)</td>
</tr>
<tr>
<td>Constant</td>
<td>-12.215 (1.912)</td>
</tr>
<tr>
<td>Rho</td>
<td>-.5163</td>
</tr>
<tr>
<td>Rho χ²</td>
<td>.0059</td>
</tr>
<tr>
<td>Model χ²</td>
<td>.0000</td>
</tr>
</tbody>
</table>

Coefficients for regional dummies and χ² results for cubic splines are omitted.
Robust standard errors are in parentheses.
Coefficients that are statistically significant at 0.05 level or lower are marked with **bold** type. † indicates marginal significance.

ordered logistic regression with a categorical variable that takes into account all program types. In each of these estimations, the results on the independent variables of interest were similar. I present the Heckman selection model because the χ² test on the covariance term still points to a bias in the data-generating process. I also utilized robustness checks similar to the ones used in the previous two models, such as regional dummies and alternative variables. The results remained robust.

The actor-level variables in the selection model have similar effects to those in the previous sections. Once again, Education, Career and Expertise are negatively related to
signing an agreement, but the interactive term Expertise×Education has a positive effect. Table 4.13 shows the effects of one interacting term dependent on the other. The individual effect of either variable becomes positive when the interacting term (i.e. Education for Expertise and vice versa) is observed.

Table 4.13: Interpreting Interactions: Selection model (Conditionality)

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>When $\beta$(Expertise (CBG))=0</td>
<td>$\beta$(Education (CBG)) = -.2937</td>
</tr>
<tr>
<td>When $\beta$(Expertise (CBG))=1</td>
<td>$\beta$(Education (CBG)) = .3743</td>
</tr>
<tr>
<td>When $\beta$(Education (CBG))=0</td>
<td>$\beta$(Expertise (CBG)) = -.4958</td>
</tr>
<tr>
<td>When $\beta$(Education (CBG))=1</td>
<td>$\beta$(Expertise (CBG)) = .1722</td>
</tr>
</tbody>
</table>

The results of the outcome model strengthen my confidence in the theoretical arguments in Chapter 3. First, econocrats receive flexible conditions. The signaling game in section 3.2 presented a counterintuitive proposition: technocrats –those econocrats with conservative policy preferences– ask for more lenient conditions, and then signal their type, intention and capacity to implement IMF conditions. Here, I find that having a conservative CBG is negatively correlated to entering a program with strict conditionality. Expertise is the only actor-level variable that has a positive effect on the probability of getting strict conditions. In this case, due to the interaction term, these are econocrats with undergraduate education in fields other than economics and finance. As shown in Table 4.14, when coupled with an undergraduate education in economics or finance, the individual effect of Expertise also turns negative.

Table 4.14: Interpreting Interactions: Outcome model (Conditionality)

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>When $\beta$(Expertise (CBG))=0</td>
<td>$\beta$(Education (CBG)) = -.4764</td>
</tr>
<tr>
<td>When $\beta$(Expertise (CBG))=1</td>
<td>$\beta$(Education (CBG)) = -1.4308</td>
</tr>
<tr>
<td>When $\beta$(Education (CBG))=0</td>
<td>$\beta$(Expertise (CBG)) = .8645</td>
</tr>
<tr>
<td>When $\beta$(Education (CBG))=1</td>
<td>$\beta$(Expertise (CBG)) = -.0899</td>
</tr>
</tbody>
</table>
These findings lead us to ask: Why does Expertise, considered independently, have a positive effect on strict conditionality? One explanation is that an econocrat with two years of experience has not yet been immersed into forms of neoliberal economic thinking, and therefore has different policy preferences. Moreover, Education, taken in concert with Expertise, supplies econocrats with asymmetric technical knowledge, increasing their informal autonomy. My theory suggests that autonomous or “powerful” econocrats demand more lenient conditions that they are able to implement fully. On the other hand, “weak” econocrats ask for strict conditionality with the awareness that they can implement the agreement only partially.

This brings us to a second point: institutional autonomy is negatively correlated with strict conditionality. As the number of irregular turnovers increases, so does the probability of signing an IMF agreement with strict conditions. Econocrats lacking job security and bureaucratic autonomy are thus more likely to ask for strict conditionality. The Bureaucratic Time Horizon variable has a similar effect. As an econocrat’s remaining time in office decreases, their countries become more likely to sign agreements of strict conditionality. The gist of the argument here is that whenever econocrats feel institutionally constrained, they opt for non-concessional arrangements. These are more ambitious arrangements in terms of their policy goals and are more likely to result in partial implementation as shown in Tables 4.5 and 4.8. Then, why would econocrats ask for strict conditions, knowing that they would be implemented only partially? As the spatial model in Section 3.1.2 points out, with an implementation constraint, the set of possible economic programs can expand to include stricter-than-necessary conditionality (Hypothesis 3). Under poor economic conditions, the Fund prefers a strict program to a flexible one, even if it would be implemented only partially (Hypothesis 5). In other words, econocrats lacking the autonomy to implement even the most lenient of economic programs may prefer an ambitious program, a partially implemented version of which would still move the country closer to their ideal policy position than a partially implemented version of a lenient program.
Coefficients of the Debt Service and Growth variables concur with this argument: the Fund overburdens countries with poor economic conditions. Borrowing countries with higher debt and lower growth rates require more funding and far-reaching reforms. Even if implemented only partially, non-concessional programs fit the bill. The positive and significant effect of the Reserves variable differs in this regard. The probability of non-concessional programs increases with the level of reserves, which may indicate a borrowing country’s capacity to implement strict conditionality. I re-estimated the same Heckman probit model with another binary dependent variable of signing a concessional arrangement (ESAF, PRGF or ECF). I found that a borrowing country with a low debt service ratio, high GDP growth, and low reserves is more likely to sign these agreements. Hence, the Fund does not just utilize these instruments uniformly for all countries with poor economic fundamentals. In actuality, concessions are made for those with specific economic problems, such as low international reserves.

It seems that the IMF differentiates between states that are able to implement strict conditions and those without such a capacity. Countries with a larger Fund Quota, as well as democracies and allies of the United States are more likely to sign SBAs and EFFs. Needless to say, proportional to the severity of the attached conditions, these are loan arrangements for large sums of money. It is thus expected that countries playing a more vital economic and political role in the international arena receive these larger loans and shoulder stricter conditions.

As previously suggested, countries with more Borrowing Experience tend to have poorer implementation records. Here I find that they are also more likely to sign concessional arrangements. In other words, “repeat customers” of the Fund receive lenient programs that they fail to implement. This may be due to the capacity issues of the borrowers. However, signing back-to-back arrangements is not a rare event. On the contrary it is a regular occurrence, as the data shows that the maximum number of borrowing years is 26, and

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the mean value of this variable is 5.8 years. 42 of the 111 actively-borrowing states in this dataset have borrowing experiences of more than 14 years. These 42 states represent a range of geographic regions, stages of economic development, and types of political regime. It is therefore impossible to argue that these are all low-income borrowers with very low bureaucratic capacity. Instead, Table 4.8 shows that experienced borrowers are able to sign lenient agreements and implement them only partially without being subjected to IMF sanctions.

Table 4.15 draws attention to the substantive effects of these variables.

Except for the Expertise variable, all other actor-specific variables have substantive and negative marginal effects on the probability of strict conditionality. An econocrat with undergraduate and graduate-level training in economics decreases this probability by 29.5%. If the same econocrat has a central banking career, this falls to 45%. This result, of course, does not explain the causal path. Is it the IMF that takes the presence of econocrats in office as a sign for institutional capacity? Or, is it the econocrats persuading their IMF counterparts? The interaction between preferences and institutions gives us an idea: conservative econocrats are associated with more lenient conditions only when they have job security. As irregular turnovers increase, the same set of indicators for conservative economic preferences become positively-correlated (39.6 %) with strict conditionality.

From the view of the IMF, a country with a new central bank governor may be more vulnerable to turnover. A program with more lenient conditionality would then be more suitable when an irregular turnover occurs. In fact, as shown in Table 4.12, the greater the Bureaucratic Time Horizon is, the more lenient the arrangement becomes. Yet, even though the Bureaucratic Time Horizon is at its maximum after a turnover, these countries have not received more flexible terms. This finding is consistent with the theoretical argument that conservative econocrats with bureaucratic autonomy use low conditionality to differentiate themselves. As their institutional independence weakens, so does their signal for an “easy”
Table 4.15: Predicted Probabilities of Strict Conditionality

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baseline Probability</td>
<td>35.6%</td>
</tr>
<tr>
<td>When CBG has an undergraduate degree in economics or business, and no such graduate degree</td>
<td>Decreases by 24.9%* (Falls to 26.7 %)</td>
</tr>
<tr>
<td>When CBG has a graduate degree in economics or business, and no such undergraduate degree</td>
<td>Increases by 26%* (Rises to 44.8 %)</td>
</tr>
<tr>
<td>When CBG has both undergraduate and graduate degrees in economics or business</td>
<td>Decreases by 29.5%* (Falls to 25.1 %)</td>
</tr>
<tr>
<td>When CBG has a central banking career</td>
<td>Decreases by 12.5%* (Falls to 31.1 %)</td>
</tr>
<tr>
<td>When CBG has both undergraduate and graduate degrees in economics or business, and a CB career</td>
<td>Decreases by 45%* (Falls to 19.6 %)</td>
</tr>
<tr>
<td>When irregular turnover occurs</td>
<td>Increases by 27.4%* (Rises to 45.3 %)</td>
</tr>
<tr>
<td>When CBG’s undergraduate and graduate degrees are in economics and business and no irregular turnovers</td>
<td>Decreases by 35.3%* (Falls to 23%)</td>
</tr>
<tr>
<td>When CBG’s undergraduate and graduate degrees are in economics and business and irregular turnover occurs</td>
<td>Increases by 39.6%* (Rises to 49.7)</td>
</tr>
<tr>
<td>Increase borrowing experience by 1 year</td>
<td>Decreases by 5.5%* (Falls to 33.6%)</td>
</tr>
<tr>
<td>Being a democracy</td>
<td>Increases by 39.8%* (Rises to 49.7%)</td>
</tr>
<tr>
<td>Having a fixed exchange rate regime</td>
<td>Increases by 33.5%* (Rises to 47.5 %)</td>
</tr>
<tr>
<td>Increase debt service ratio to maximum</td>
<td>Increases by 178%* (Rises to 99 %)</td>
</tr>
<tr>
<td>Decrease GDP growth to minimum</td>
<td>Increases by 180%* (Rises to 99.8 %)</td>
</tr>
<tr>
<td>Decrease reserves to minimum</td>
<td>Decreases by 30.8%* (Falls to 24.6 %)</td>
</tr>
</tbody>
</table>

* indicates a statistically significant change.
† indicates marginal significance.

program. Interestingly, these econocrats may ask for stricter-than-necessary conditions to compensate for their lack of agency slack.
4.3.4 Determinants of Receiving Waivers

For states under IMF supervision, bargaining does not end with the signing of an agreement, but instead persists throughout the program. Usually waivers can be obtained for certain program terms that will not be implemented on time.\textsuperscript{111} When granting these waivers, the IMF indicates its confidence that despite slippages, country officials have every intention to implement the required reforms. Hypothesis 10 argues that this belief is based on whether or not the Fund has allies in domestic politics, such as neoliberal economists with similar policy positions.

To test this hypothesis, I use a binary variable of whether or not a borrowing country has received a waiver for a particular year. As before, I begin by running a Heckman probit model. Table 4.16 shows a selection model similar to those in the previous sections with a statistically significant covariance term. In the outcome stage, conservative policy preferences (i.e. Education) seem to be positively correlated with receiving waivers. Similarly, the longer the time spent by econocrats in office, the more likely their countries are to receive waivers. On the other hand, when irregular turnovers occur, the probability of receiving a waiver decreases. These findings strengthen my argument that conservative econocrats with job security become mediators between their countries and the IMF. Moreover, these experienced econocrats represent a high level of credibility, which the IMF deems essential to imagining the prospects of an arrangement. The amount of time spent in office, as well as the future time in office, are both significant to this equation. One may also attribute this effect to the socialization process between Fund officials and econocrats.

This model, however, is not stable. When I add regional dummies to check robustness, the $\chi^2$ for the covariance term rises to .1558. This change occurs with the addition of

\textsuperscript{111}In official IMF documents, these are called “Request for Waiver of Nonobservance and Applicability of Performance Criteria.”
Table 4.16: Determinants of Receiving Waivers: Heckman Probit Model

<table>
<thead>
<tr>
<th></th>
<th>Waivers Model</th>
<th>Selection Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education (CBG)</td>
<td>0.3923 (0.1595)</td>
<td>Education (CBG)</td>
</tr>
<tr>
<td></td>
<td>-0.0006 (0.0002)</td>
<td>US Aid</td>
</tr>
<tr>
<td>Career (CBG)</td>
<td>-0.1317 (0.0935)</td>
<td>Career (CBG)</td>
</tr>
<tr>
<td></td>
<td>-0.0138 (0.0038)</td>
<td>Debt Service</td>
</tr>
<tr>
<td>Expertise (CBG)</td>
<td>0.4659 (0.3590)</td>
<td>Expertise (CBG)</td>
</tr>
<tr>
<td></td>
<td>-0.2532 (0.1075)</td>
<td>Fixed Exchange Rates</td>
</tr>
<tr>
<td>Expertise×Education</td>
<td>-0.4408 (0.3864)</td>
<td>Expertise×Education</td>
</tr>
<tr>
<td></td>
<td>-0.5292 (0.1952)</td>
<td>US Aid</td>
</tr>
<tr>
<td>Similarity</td>
<td>0.1502 (0.1570)</td>
<td>Reserves</td>
</tr>
<tr>
<td></td>
<td>0.0757 (0.0197)</td>
<td>Reserves</td>
</tr>
<tr>
<td></td>
<td>0.0216 (0.0107)</td>
<td>Growth</td>
</tr>
<tr>
<td></td>
<td>-0.0503 (0.1116)</td>
<td>Growth</td>
</tr>
<tr>
<td>Fixed Exchange Rates</td>
<td>-0.2532 (0.1075)</td>
<td>Inflation</td>
</tr>
<tr>
<td>Irregular Turnover</td>
<td>-0.4408 (0.3864)</td>
<td>Net Domestic Credit</td>
</tr>
<tr>
<td></td>
<td>-0.5292 (0.1952)</td>
<td></td>
</tr>
<tr>
<td>GDP per capita</td>
<td>-0.0001 (0.00002)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.0003 (0.0001)</td>
<td></td>
</tr>
<tr>
<td>Bureaucratic Time Horizon</td>
<td>0.0591 (0.2566)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.0377 (0.0145)</td>
<td></td>
</tr>
<tr>
<td>Borrowing Experience</td>
<td>0.0392 (0.0077)</td>
<td></td>
</tr>
<tr>
<td>Fund Quota</td>
<td>0.1471 (0.0477)</td>
<td>Fund Quota</td>
</tr>
<tr>
<td></td>
<td>0.0950 (0.0327)</td>
<td></td>
</tr>
<tr>
<td>Democracy</td>
<td>0.0629 (0.0739)</td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>-3.488 (9.406)</td>
<td>Constant</td>
</tr>
<tr>
<td></td>
<td>2.234 (5.982)</td>
<td></td>
</tr>
<tr>
<td>Rho</td>
<td>-0.9671</td>
<td>N</td>
</tr>
<tr>
<td>Rho $\chi^2$</td>
<td>0.0000</td>
<td></td>
</tr>
<tr>
<td>Model $\chi^2$</td>
<td>0.0000</td>
<td>1256</td>
</tr>
</tbody>
</table>

$\chi^2$ results for cubic splines are omitted. Robust standard errors are in parentheses. Coefficients that are statistically significant at 0.05 level or lower are marked with **bold** type. † indicates marginal significance.

Other independent variables as well. I can therefore conclude that the processes of agreement selection and outcome are not related in the ways outlined in previous models. Here, the degree of selection bias does not warrant a Heckman technique; therefore I estimated the same model using probit. Suspecting a multicollinearity problem, I present five separate models in Table 4.17.

In all of the models, Irregular Turnover, Bureaucratic Time Horizon, and Time in Office have very similar coefficients and are all statistically significant. The signs of these coefficients are in accordance with my previous argument that bureaucratic autonomy has a
Table 4.17: Determinants of Receiving Waivers: Probit Models

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Model I</th>
<th>Model II</th>
<th>Model III</th>
<th>Model IV</th>
<th>Model V</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education (CBG)</td>
<td>.5142 (.2170)</td>
<td>- .2332 (.1508)</td>
<td>- .2145 (.1528)</td>
<td>-.1324 (.2881)</td>
<td>.1324 (.2881)</td>
</tr>
<tr>
<td>Career (CBG)</td>
<td>- .2332 (.1508)</td>
<td>- .2145 (.1528)</td>
<td>-.1324 (.2881)</td>
<td>.1324 (.2881)</td>
<td>.1324 (.2881)</td>
</tr>
<tr>
<td>Expertise (CBG)</td>
<td>.4835 (.1652)</td>
<td>-.0205 (.6187)</td>
<td>-.0205 (.6187)</td>
<td>-.0205 (.6187)</td>
<td>-.0205 (.6187)</td>
</tr>
<tr>
<td>Expertise × Education</td>
<td>.5039 (.1605)</td>
<td>.4670 (.6447)</td>
<td>.4670 (.6447)</td>
<td>.4670 (.6447)</td>
<td>.4670 (.6447)</td>
</tr>
<tr>
<td>Strict Conditionality</td>
<td>-.7237 (.1915)</td>
<td>-.7915 (.1893)</td>
<td>-.7385 (.1904)</td>
<td>-.7279 (.1897)</td>
<td>-.7212 (.1910)</td>
</tr>
<tr>
<td>Borrowing Experience</td>
<td>.0617 (.0138)</td>
<td>.0638 (.0138)</td>
<td>.0647 (.0140)</td>
<td>.0643 (.0140)</td>
<td>.0639 (.0140)</td>
</tr>
<tr>
<td>Fund Quota</td>
<td>.2298 (.0962)</td>
<td>.2570 (.0957)</td>
<td>.2396 (.0945)</td>
<td>.2260 (.0949)</td>
<td>.2222 (.0951)</td>
</tr>
<tr>
<td>Irregular Turnover</td>
<td>-.4583 (.2182)</td>
<td>-.5145 (.2182)</td>
<td>-.4528 (.2168)</td>
<td>-.4480 (.2181)</td>
<td>-.4448 (.2174)</td>
</tr>
<tr>
<td>Bureaucratic Time Horizon</td>
<td>.1299 (.0440)</td>
<td>.1427 (.0438)</td>
<td>.1264 (.0445)</td>
<td>.1275 (.0447)</td>
<td>.1272 (.0448)</td>
</tr>
<tr>
<td>Time in Office</td>
<td>.0701 (.0265)</td>
<td>.0741 (.0264)</td>
<td>.0642 (.0267)</td>
<td>.0644 (.0267)</td>
<td>.0650 (.0267)</td>
</tr>
<tr>
<td>Similarity</td>
<td>.5303† (.3108)</td>
<td>.5991 (.3074)</td>
<td>.6238 (.3159)</td>
<td>.5787† (.3177)</td>
<td>.5644† (.3196)</td>
</tr>
<tr>
<td>US Aid</td>
<td>-.0005 (.0004)</td>
<td>-.0006 (.0005)</td>
<td>-.0004 (.0004)</td>
<td>-.0004 (.0004)</td>
<td>-.0004 (.0004)</td>
</tr>
<tr>
<td>Debt Service</td>
<td>-.0444 (.0216)</td>
<td>-.0413 (.0213)</td>
<td>-.0463 (.0223)</td>
<td>-.0452 (.0219)</td>
<td>-.0452 (.0219)</td>
</tr>
<tr>
<td>Reserves</td>
<td>.0951 (.0320)</td>
<td>.0980 (.0315)</td>
<td>.0943 (.0317)</td>
<td>.0955 (.0317)</td>
<td>.0953 (.0320)</td>
</tr>
<tr>
<td>Growth</td>
<td>.0401 (.0186)</td>
<td>.0344† (.0182)</td>
<td>.0360 (.0187)</td>
<td>.0373 (.0188)</td>
<td>.0381 (.0191)</td>
</tr>
<tr>
<td>Fixed Exchange Rates</td>
<td>-.6546 (.1829)</td>
<td>-.5586 (.1734)</td>
<td>-.6454 (.1828)</td>
<td>-.6672 (.1851)</td>
<td>-.6750 (.1840)</td>
</tr>
<tr>
<td>M2</td>
<td>.0024 (.0046)</td>
<td>.0035 (.0044)</td>
<td>.0022 (.0045)</td>
<td>.0023 (.0046)</td>
<td>.0023 (.0046)</td>
</tr>
<tr>
<td>Constant</td>
<td>-6.287 (1.843)</td>
<td>-6.323 (1.832)</td>
<td>-6.327 (1.816)</td>
<td>-6.114 (1.821)</td>
<td>-6.121 (1.827)</td>
</tr>
<tr>
<td>N</td>
<td>635</td>
<td>641</td>
<td>635</td>
<td>635</td>
<td>635</td>
</tr>
<tr>
<td>Model χ²</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

Percent Correctly Predicted: 82.05 % for Model I, similar for others.
Robust standard errors are in parentheses.
Coefficients that are statistically significant at 0.05 level or lower are marked with bold type.† indicates marginal significance.
positive impact on the probability of receiving waivers.

Borrowing Experience and Fund Quota also demonstrate positive and significant results across all models. Frequent clients of the Fund, as well as those with higher quotas, are more likely to see their slippages waived. From the Fund’s perspective, wealthier countries with the potential for greater effects on the global economy have higher quotas. Hence, considering their economic position, the IMF demonstrates more tolerance towards these countries. For experienced borrowers, it is possible to argue that these are countries in dire need of such tolerance due to the extremely poor economic conditions they are facing. However, models in this section show that it is actually the case that countries with low debt, high reserves, and high growth rates are more likely to receive waivers. The positive sign of Borrowing Experience, then, does not reflect the effects of perpetually bad economic fundamentals, but rather the improving ability of these countries to communicate with the IMF.

Another independent variable with a uniform effect across all the models is Strict Conditionality. Conventional wisdom may suggest that countries under non-concessional arrangements would receive waivers more frequently due to the nature of the attached conditions. The negative and significant sign of the Strict Conditionality variable, however, reveals evidence to the contrary: those with more lenient conditions are more likely to be excused for any delays or slippages.

In terms of actor-level variables, in Models I, III, and IV, Education, Expertise and their interactive term produce positive and statistically significant coefficients. Of course, using the interactive term without its components is misleading. Hence, in Model V, I use all three of these variables. Although the coefficients for Education and Expertise×Education have the same sign as before, they lose their significance. This result, together with those from the earlier selection model, strengthens the suspicion of multicollinearity. It is possible to tentatively argue that countries with conservative econocrats in office are more likely to
receive waivers.

I have run the same models with actor-level variables for finance ministers. Only one of these models returned significant results. The model with Expertise (CBG), Expertise (MOF), and Expertise (CBG)×Expertise (MOF) as explanatory variables showed that a central banker’s expertise is positively correlated with the probability of receiving waivers. Table 4.18 reports that the statistically significant coefficient of Expertise (CBG) is .5315, and this effect is observed when the finance minister does not have a similar graduate education in Economics or Business Administration. When both have expertise in these fields, a central banker’s effect rises to .9907.

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>When ( \beta ) (Expertise (MOF))=0</td>
<td>( \beta ) (Expertise (CBG)) = .5315</td>
</tr>
<tr>
<td>When ( \beta ) (Expertise (MOF))=1</td>
<td>( \beta ) (Expertise (CBG)) = .9907</td>
</tr>
<tr>
<td>When ( \beta ) (Expertise (CBG))=0</td>
<td>( \beta ) (Expertise (MOF)) = -.2023</td>
</tr>
<tr>
<td>When ( \beta ) (Expertise (CBG))=1</td>
<td>( \beta ) (Expertise (MOF)) = .1569</td>
</tr>
</tbody>
</table>

Coefficients that are statistically significant at 0.05 level are marked with **bold** type.

Table 4.19 reports the marginal effects of independent variables from Models I and III. The baseline probability indicates that receiving a waiver is in fact a rare occurrence.

Using the SPost package, I have also generated the following figures that visualize these marginal effects (Long & Freese 2005). Figure 4.9 compares econocrats with and without an undergraduate education in economics or business across different levels of borrowing experience. For both categories, the probability of receiving a waiver increases with the number of previous program-years. The red line, representing countries with conservative econocrats, lies above the blue line for all years. Interestingly, as countries accumulate more

\[112\text{The rest of the findings were similar to those in Models I-V, hence they have been omitted.}\]

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**Table 4.19: Predicted Probabilities of Receiving a Waiver**

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Model I</th>
<th>Model III</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baseline Probability</td>
<td>9.36%</td>
<td>9.32%</td>
</tr>
<tr>
<td>Change in Model I</td>
<td>Change in Model III</td>
<td></td>
</tr>
<tr>
<td>When CBG has an undergraduate degree in economics or business</td>
<td>Increases by 7%*</td>
<td>Increases by 7.4%*</td>
</tr>
<tr>
<td>(Rises to 10%)</td>
<td>(Rises to 10%)</td>
<td></td>
</tr>
<tr>
<td>When CBG has a graduate degree in economics or business</td>
<td>Decreases by 13%*</td>
<td>Decreases by 13.3%*</td>
</tr>
<tr>
<td>(Falls to 8.1%)</td>
<td>(Falls to 8%)</td>
<td></td>
</tr>
<tr>
<td>When there is strict conditionality</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decreases by 13%*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Falls to 8.1%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>When irregular turnover occurs</td>
<td>Decreases by 6.19%*</td>
<td>Decreases by 6.11%*</td>
</tr>
<tr>
<td>(Falls to 8.8%)</td>
<td>(Falls to 8.7%)</td>
<td></td>
</tr>
<tr>
<td>Increase borrowing experience from minimum to maximum</td>
<td>Increases by 35%*</td>
<td>Increases by 37.5%*</td>
</tr>
<tr>
<td>(Rises to 12.6%)</td>
<td>(Rises to 12.8%)</td>
<td></td>
</tr>
<tr>
<td>Increase country quota from minimum to maximum</td>
<td>Increases by 24%*</td>
<td>Increases by 25%*</td>
</tr>
<tr>
<td>(Rises to 11.6%)</td>
<td>(Rises to 11.6%)</td>
<td></td>
</tr>
</tbody>
</table>

* indicates a statistically significant change.

**Figure 4.9: The Effects of Education and Program Experience on the Probability of Receiving a Waiver from the IMF**

![Graph showing the probability of receiving a waiver vs. number of previous program years]
experience, the gap between these two lines grows. This difference implies that countries with conservative econocrats in office increase their advantages as years pass and improve their chances to obtain a waiver. Observing no such change in the other category reminds us that it is not just about learning or an exchange of information, but rather a socialization process between like-minded people.

Figure 4.10: The Effects of Expertise and Program Experience on the Probability of Receiving a Waiver from the IMF

Figure 4.10 demonstrates a similar difference for econocrats with or without a graduate degree in economics or business. Here, the gap between the two lines for highly experienced countries is narrower. Those without any graduate degree in economics or business may have an undergraduate education in these fields and may be able to close the socialization gap over time.

Figure 4.11 visualizes a comparison of arrangements with either flexible or strict conditionality. Countries that sign more lenient programs are categorically more likely to receive
Figure 4.11: The Effects of Conditionality and Program Experience on the Probability of Receiving a Waiver from the IMF
waivers for partial implementation. The blue line, which represents such programs, grows steeper as borrowing experience increases. Countries that sign back-to-back concessional agreements are then shown to receive even more advantages over time.

Findings from both this section and the one preceding help us understand the role of econocrats in international financial cooperation. Autonomous and conservative econocrats tend to bargain for more lenient program conditions. Moreover, countries in such arrangements are more accommodated by the Fund if partial implementation occurs. On the other hand, conservative econocrats without autonomy tend to opt for strict conditionality. Regardless of the preferences of econocrats, these programs have lower rates of implementation, and, if slippages occur, the IMF staff’s recommendation for a waiver may not be as easily obtained as for concessional programs.

4.4 Implications

In this chapter, I presented empirical tests on how and to what extent econocrats influence compliance with IMF agreements. The findings point to strong correlation between the policy preferences of econocrats and the implementation of international financial agreements.

First and foremost, econocrats play a part in both the bargaining and implementation stages. The selection models used in this chapter show that when econocrats with strong preferences for neoliberal economic policies are involved, negotiations with the Fund are more likely to lead to the signing of an arrangement. Here, “strong preferences” refer to the combination of undergraduate and graduate training in economics or business administration. Either of these, taken independently, may not be enough to form policy preferences akin to those of the IMF officials.
Second, when conservative econocrats are in office, borrowing countries tend to achieve a higher implementation level. This effect increases along with bureaucratic autonomy. When conservative econocrats are without autonomy, their influence on compliance turns negative. In such cases, it is institutions (e.g. central bank law) that change rather than the preferences of econocrats, thus this finding suggests that political pressure on bureaucracy results in partial implementation.

Third, with conservative econocrats in office, borrowing states are less likely to be sanctioned by the Fund and not all cases of partial implementation result in suspension of funds. Some states are forgiven while access to IMF loans is suspended for others. The evidence also suggests that econocrats may have an impact on the IMF’s decision to sanction non-compliant clients given their socialization, persuasion, or simply through their position in office. Once again, the impact is greater when considering autonomous agencies and suggests that domestic institutional structure is another piece to consider.

Fourth, the combined effect of policy preferences and domestic institutions is also influential in dictating the type of agreement signed. Countries that employ autonomous econocrats with strong preferences for neoliberal economic policies are more likely to sign lenient, flexible arrangements. From previous models, we know that these arrangements are more likely to be implemented and less likely to be suspended. Hence, econocrats have a dual role and use these roles effectively. However, this effect is reversed as soon as econocrats lose their job security. Though holding the same set of policy preferences, for instance, they become more inclined to sign agreements with strict conditionality once an irregular turnover occurs.

Fifth, countries with conservative and autonomous econocrats are also more likely to receive waivers when their programs go off-track. That is to say, not only do these countries sign more flexible agreements and demonstrate higher implementation performance, they also receive better treatment from the Fund when deviating from program objectives. It is
possible to argue that in these cases, the IMF acts on its belief that partial implementation is involuntary and will not be repeated.

All these findings are supportive of my theoretical arguments, yet are limited in their capacity to describe the causal paths. Even though statistical analysis is crucial to see where our theories stand in general, it does not tell the whole story. In order to find out if these correlations hold up to economic, political, and social realities, I now turn to analytical narratives and elite interviews.
Chapter 5

Causal Mechanisms of Implementation: Case Studies and Elite Interviews

The findings of Chapter 4 present a strong statistical basis for an actor-centric theory of compliance. Without disregarding limits to regression analysis, one may conclude that all else equal how well an IMF program is implemented is highly correlated with the policy preferences and autonomy of econocrats. This inference, however, is incomplete. It does not establish causation, and more importantly it does not tell us a concrete story. Moreover, due to measurement issues, some of the hypotheses in Tables 3.2 and 3.3 (i.e. Hypotheses 9 and 12) cannot be tested through statistical methods. Therefore, it is necessary to adopt a multi-method approach and support regression findings with qualitative methods.

The hypotheses on Table 5.1 will be investigated by using two approaches in qualitative methods: case studies and elite interviews. For the first section, I selected four cases by using stratified random sampling, and arranged these in a typology (Fearon & Laitin 2008, 758). This arrangement will enable us to take a closer look at the IMF programs and reasons for their success or failure. Analytical narratives for these four cases will be sufficiently detailed and follow the trajectory of the IMF agreement with regard to domestic political developments. The second section aims to go one step further by focusing on a single case and perceptions of the econocrats within that case. Using interview data will help us attain an insider’s understanding of the complex relationship between politicians and the econocrats.
### Table 5.1: List of Hypotheses for Chapter 5

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Argument</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>+ correlation: Economic hardship and implementation level</td>
</tr>
<tr>
<td>3</td>
<td>+ correlation: Strictness of conditions and partial implementation</td>
</tr>
<tr>
<td>4</td>
<td>− correlation: Economic hardship and strictness of conditions</td>
</tr>
<tr>
<td>5</td>
<td>+ correlation: Economic hardship and strictness of conditions</td>
</tr>
<tr>
<td>6</td>
<td>Partial implementation is an equilibrium</td>
</tr>
<tr>
<td>7</td>
<td>+ correlation: Number of previous agreements and implementation level</td>
</tr>
<tr>
<td>8a</td>
<td>+ correlation: Conservative policy preferences and implementation level</td>
</tr>
<tr>
<td>8b</td>
<td>− correlation: Conservative policy preferences and implementation level</td>
</tr>
<tr>
<td>9</td>
<td>+ correlation: Domestic conflicts of interests and borrowing from IMF</td>
</tr>
<tr>
<td>10</td>
<td>+ correlation: Conservative policy preferences and program waivers</td>
</tr>
<tr>
<td>11</td>
<td>+ correlation: Conservative policy preferences and implementation level</td>
</tr>
<tr>
<td>12</td>
<td>−/+ correlation: Conservative policy preferences and implementation level</td>
</tr>
<tr>
<td>13</td>
<td>+ correlation: Conservative policy preferences and implementation level</td>
</tr>
<tr>
<td>14a</td>
<td>+ correlation: Backgrounds in economy bureaucracy and implementation level</td>
</tr>
</tbody>
</table>

### 5.1 Case Studies

How exactly econocrats influence the compliance with international financial agreements? Here I turn to in-depth analyses and process tracing. I regard these micro-level techniques as complementary to the previous efforts of explanation in this study (Bates, Greif, Levi, Rosenthal & Weingast 1998, 13). As Gerring (2004, 348) emphasizes, the case study approach contributes to any research effort through its comparative advantage in the identification of causal mechanisms and clarification of “whether a pattern of covariation is truly causal in nature.”

For each case, the main goal is “to locate and explore particular mechanisms that
shape the interplay between strategic actors and thereby generate outcomes” (Bates et al. 1998, 12). Therefore I will focus on choices and decisions. While doing so, I adopt a mindset that aims to improve on the statistical results rather than confirm them. I apply this mindset by a) building a case selection process, and b) by using the same template for each selected case. With this template in Table 5.2, I “identify the actors, the decision points they faced, the choices they made, the paths taken and shunned and the manner in which their choices generated events and outcome” (Bates et al. 1998, 13).

Table 5.2: A Template for Analytical Narratives

<table>
<thead>
<tr>
<th>Steps</th>
<th>Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program</td>
<td>Why and how was it initiated?</td>
</tr>
<tr>
<td></td>
<td>Program properties? Number and strictness of conditions?</td>
</tr>
<tr>
<td></td>
<td>What happened during the implementation period?</td>
</tr>
<tr>
<td></td>
<td>(Major domestic and international events, natural disasters, elections,</td>
</tr>
<tr>
<td></td>
<td>political coalitions, crises, strikes, etc.)</td>
</tr>
<tr>
<td></td>
<td>Any delays? Waivers granted for slippages?</td>
</tr>
<tr>
<td></td>
<td>Why and how did it end?</td>
</tr>
<tr>
<td></td>
<td>Implementation level? Suspension? Cancellation?</td>
</tr>
<tr>
<td></td>
<td>A new agreement signed? What happened to the government?</td>
</tr>
<tr>
<td>Actors:</td>
<td>Prime minister and/or president</td>
</tr>
<tr>
<td>Politicians:</td>
<td>Party identity? Previous experiences with the IMF?</td>
</tr>
<tr>
<td>Econocrats:</td>
<td>Central bank governors (CBG), ministers of finance (MOF), treasurer</td>
</tr>
<tr>
<td></td>
<td>Appointment process, background, autonomy</td>
</tr>
<tr>
<td></td>
<td>Any conflicts? Public declarations?</td>
</tr>
<tr>
<td></td>
<td>Career paths after the program?</td>
</tr>
<tr>
<td>Evaluation</td>
<td>Are findings congruent with theoretical arguments?</td>
</tr>
<tr>
<td></td>
<td>Auxiliary outcomes?</td>
</tr>
<tr>
<td></td>
<td>If any discrepancies, why?</td>
</tr>
<tr>
<td></td>
<td>Alternative explanations?</td>
</tr>
</tbody>
</table>

5.1.1 Case Selection: Stratified Random Sampling

Case selection is primarily a theoretical matter with two major viewpoints: purposive
vs. random sampling. On the one hand, some scholars argue that over-generalizations from a small number of cases might mislead researchers especially if those cases are selected badly (Bennett & Elman 2006, 461). Purposive case selection presents certain advantages in focusing on the available, accessible, and relevant data (Seawright & Gerring 2008, Gerring 2008).

Scholars who favor purposive case selection recommend different methods to pinpoint typical, influential, diverse, extreme, deviant, crucial, most-similar and most-different cases. When choosing among these selection criteria, researchers consider the above-mentioned issues as well as their goal in conducting a case study. For example, a typical or representative case (with a low residual if selected from a dataset) enables researchers to “check for possible spuriousness and endogeneity and establish whether the hypothesized mechanisms are indeed operative” (Bennett & Elman 2006, 473-474). On the other hand, an extreme case that lies many standard deviations away from the mean of x or y helps researchers do an exploratory study for –say– a new formal model (Seawright & Gerring 2008, 301).

Purposive case selection is criticized widely on the grounds of selection bias. Selection based on the dependent variable is problematic because it ignores $x = 1, y = 0$ and $x = 0, y = 1$ cases (Geddes 1990). More importantly, this approach may pave the way for “cherry-picking” the confirmatory examples (King, Keohane & Verba 1994). This tendency jeopardizes the validity as well as generalizability of the case study.

Random selection is recommended as a remedy against consciously or unconsciously cherry-picking favorable cases. Yet, it is seldom used by qualitative researchers because randomly-selected cases may not be the substantively interesting ones. In addition, most researchers do not have much interest in $x = 1, y = 0$ and $x = 0, y = 1$ cases.

Fearon and Laitin (2008) advocate a hybrid method, namely stratified random sampling. In this approach, researchers stratify their random selection process on particular
variables. These may include variables that designate geographical regions or economic fundamentals as well as different values of a particular x. They argue that because researchers are more likely to end up with unfamiliar cases that did not generate their theory, these might “serve as out-of-sample tests” (Fearon & Laitin 2008, 765). At the same time, random selection from sub-samples based on theoretical grounds might overcome concerns about substantively irrelevant case studies.

In this chapter, I use this method by constructing a dataset of 596 IMF programs between 1978-2008 and drawing random cases from sub-samples based on the two major independent variables: policy preferences and institutional autonomy. Table 5.3 shows the cross tabulation of these variables as well as the mean values for implementation ratio (m), suspension (s), probability of receiving a waiver (w), and ratio of high-conditionality agreements (h) for each category. Each cell also contains the randomly selected country-program for that category.

Table 5.3: A Typology of Program Implementation

<table>
<thead>
<tr>
<th>Institutional autonomy</th>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Category A</td>
<td>Category B</td>
</tr>
<tr>
<td>Number of obs.</td>
<td>49</td>
<td>69</td>
</tr>
<tr>
<td></td>
<td>( \bar{m} = .71, \bar{s} = .40 )</td>
<td>( \bar{m} = .66, \bar{s} = .39 )</td>
</tr>
<tr>
<td></td>
<td>Yes</td>
<td>( \bar{w} = .24, \bar{h} = .57 )</td>
</tr>
<tr>
<td></td>
<td><strong>Bolivia 1998</strong></td>
<td><strong>Pakistan 1995</strong></td>
</tr>
<tr>
<td></td>
<td>Category C</td>
<td>Category D</td>
</tr>
<tr>
<td>Number of obs.</td>
<td>14</td>
<td>21</td>
</tr>
<tr>
<td></td>
<td>( \bar{m} = .45, \bar{s} = .21 )</td>
<td>( \bar{m} = .69, \bar{s} = .23 )</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>( \bar{w} = .14, \bar{h} = .92 )</td>
</tr>
<tr>
<td></td>
<td><strong>Bulgaria 1996</strong></td>
<td><strong>Zambia 1986</strong></td>
</tr>
</tbody>
</table>

For this dataset, I preferred a program-based sample because of our goal to examine selected cases as analytical narratives. Selection of program-years, for example Argentina 2001, could not tell the whole story as we would not be able to answer the questions on Table 225.
5.2. Instead, a selection from this sample refers to a program, for example the 1999-2002 Extended Credit Facility for Ghana.

Key independent variables such as implementation ratio, program suspension, education, expertise are recoded according to the program-based format. Implementation ratio refers to the aggregate level of the disbursed to agreed amount of loans. Program suspension is coded as 1 only if a suspension occurred at the end of a program. For actor-level variables (education and expertise), I use the average score for the program duration. For example, if a person with a graduate degree in economics was the CBG of a borrowing country for two of three years spent under IMF sponsorship, the expertise score for that program is .66. Waiver is coded as 1 if the borrowing country was granted a waiver at least once during the program years.

Institutional autonomy was coded from several sources that use the Cukierman, Webb, and Neyapti’s (1992) model for central bank independence. These sources include Polillo and Guillen’s (2005) article that extends the dataset from 1980s to 2000, Crowe and Meade’s (2007) 2003 sample, and Dinçer and Eichengreen’s (2013) working paper. The Cukierman et al. (henceforth CWN) methodology measures institutional autonomy of central banks using 16 legal characteristics found in central bank statutes. Since CWN’s original sample of 72 countries was published, the IMF started holding a database of central bank laws. By accessing this database, the above-mentioned studies update the CWN sample to include 96 countries. The Autonomy variable takes a value between 0 and 1, higher values correspond to higher institutional autonomy. In my sample, 69 of 111 countries have at least one score of institutional autonomy. In terms of programs, 302 of 596 programs are signed by a country with a score. Considering the strictly legal nature of this measure as well as the missing data, the purposive-selection advocates seem justified in their objections. This restriction, nevertheless, can be seen as a hard test of my argument, and will be offset by the purposive selection of the within-case analysis in this chapter.
The actual selection process for this typology is as follows:

- Selection criteria for each category is determined.
  - For the top-left cell (category A), sample includes observations with Education and Expertise scores of 1 and an Autonomy score that is higher than the mean value (.45).
  - For the top-right cell (category B), sample includes observations with Education and Expertise scores of 1 and an Autonomy score that is lower than or equal to the mean value (.45).
  - For the bottom-left cell (category C), sample includes observations with Education and Expertise scores of 0 and an Autonomy score that is higher than the mean value (.45).
  - For the bottom-right cell (category D), sample includes observations with Education and Expertise scores of 0 and an Autonomy score that is lower than or equal to the mean value (.45).

- For each sub-sample, only non-precautionary programs of countries with an Autonomy score are included.

- Descriptive statistics are noted for each category.

- From each sub-sample, a random selection is made.

Before moving forward with analytical narratives, let us consider the typology in Table 5.3 in detail. This typology is concerned with the effects of policy preferences and institutional autonomy, or more explicitly ideational and structural factors that affect international agreements. In Chapter 3, I did not argue for these variables being necessary or sufficient conditions for implementation of IMF programs. I, however, claimed that in the
absence of institutional autonomy, econocrats’ influence may follow an indirect path, through misrepresentation of economic conditions. Then, one way to update our priors would be to investigate whether or not econocrats act more freely, for example in their public statements on IMF programs, when they are autonomous.

Another causal relationship that this typology examines is the one between strictness of conditionality and implementation performance. Conservative econocrats, but especially those restricted by the lack of bureaucratic autonomy, may ask for stricter-than-necessary conditions. This intuition for which I found some evidence in Chapter 4 will be a point of comparison among the four categories.

These four cases will also be compared in terms of their records of receiving waivers in cases of slippages or delays while under IMF scrutiny. Both theoretically and empirically, this dissertation suggests that conservative econocrats will be more successful at getting favors. Now, we will see if there is any anecdotal evidence in support of or contrary to this argument.

Formal models in Chapter 3 suggest that worsening economic conditions may have effects on IMF programs in either way. Empirical evidence in Chapter 4 points out a nuanced result: worsening economic conditions are positively correlated with implementation, yet they seem to have no significant influence on suspension. This finding implies that IMF has reasons other than poor economic fundamentals when deciding whether or not to suspend a program. These four cases will let us consider the role of economic hardship in more detail. If countries with different implementation records have similar economic outlooks, we may conclude that IMF evaluates clients not on economic performance, but perhaps their signals on the expectation of that performance.

Sometimes a causal relationship is not evident directly, but only through its auxiliary outcomes. These are “separate occurrences that should be generated if the theory works
in the posited fashion” (Mahoney 2010). My theory suggests heterogeneity of interests between econocrats and politicians who define public welfare differently and seek it through different remedies. This conflict, however, would only become public if econocrats enjoy a minimum degree of autonomy. In Category B countries then one should expect to see public declarations made by econocrats warning politicians of partial implementation. This auxiliary finding will be an indirect evidence of domestic heterogeneity of interests.

The following analysis of these four cases combines the template on Table 5.2 and the above-mentioned causal relationships under a Bayesian framework (Dion 1998). I seek to update my prior beliefs by paying attention to alternative explanations. As Bennet (2006, 341) argues, “what is important is not the number of pieces of evidence within a case that fit one explanation rather than another, but the likelihood of finding this evidence if the alternative explanations are true.” To overcome a potential confirmation bias, it is imperative to state alternative explanations explicitly and consider their relevance at every step of the analysis.

There are two alternative explanations that I will consider: 1) a top-down approach that regards compliance as doings (or non-doings) of politicians alone, and 2) a managerial approach that attributes the empirical findings in Chapter 4 to high-capacity bureaucrats with no particular policy preference. These arguments and the bottom-up approach that I advocate are not mutually exclusive. I therefore will most probably find evidence in favor of these alternatives. Then it becomes even more important to rely on the auxiliary outcomes, contextual background, and time-specific variation. For example, if implementation performance varies with change in bureaucratic offices under the same party’s rule, that may be a “smoking gun”. Another piece of strong evidence is a clash between two high-capacity econocrats with similar educational backgrounds supporting different levels of program implementation. A finding of this sort may demonstrate that it is not just the bureaucratic capacity, but at the same time bureaucratic preferences that matter.
5.1.2 Analytical Narratives

Table 5.4 summarizes the cases in this section.\footnote{Bureaucratic capacity in Table 5.4 refers to two of the WB Aggregate Governance Scores: government effectiveness (first row) and regulatory quality (second row). For Pakistan and Zambia, 1996 scores are used as the series start in 1996 (Kaufmann, Kraay & Mastruzzi 2010). CPI score refers to the Corruption Perception Index (Lambsdorff 1996). Higher scores mean lower corruption. For Bulgaria and Zambia, 1998 scores are used as these were the earliest available scores.} First crucial point is that all four programs were suspended. This finding is congruent with the empirical finding that suspension decision is somewhat independent from compliance, hence it is beyond the influence of econocrats.\footnote{Suspension rate found in Chapter 4 is 37 percent of all the programs between 1978 and 2008. Empirical evidence also showed that suspensions did not always follow the compliance rate.} Implementation of the program conditions, on the other hand, and transfer of funds seem to be related to the identity of the implementer. Bolivia and Pakistan, two countries with conservative econocrats, performed much better at the implementation stage compared to Bulgaria and Zambia. They also seem advantageous in receiving waivers and extensions despite slippages and delays. In terms of strictness of the conditions, both Bulgaria and Zambia had to sign front-loaded programs with structural conditions imposed on them before disbursement of any funds.
<table>
<thead>
<tr>
<th>ATTRIBUTES</th>
<th>CASES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferences</td>
<td>Conservative</td>
</tr>
<tr>
<td>Autonomy</td>
<td>Yes (.63)</td>
</tr>
<tr>
<td>Suspension</td>
<td>Yes</td>
</tr>
<tr>
<td>Reason for suspension</td>
<td>Partly due to 2002 elections.</td>
</tr>
<tr>
<td>Implementation ratio</td>
<td>0.63</td>
</tr>
<tr>
<td>Waivers</td>
<td>Both in 2000 and 2001.</td>
</tr>
<tr>
<td>Conditionality</td>
<td>Concessionary terms, but ambitious targets.</td>
</tr>
<tr>
<td>Program type</td>
<td>PRGF</td>
</tr>
<tr>
<td>Loan amount</td>
<td>$138 million</td>
</tr>
<tr>
<td>After</td>
<td>2003 SBA suspended (.76 imp. ratio)</td>
</tr>
<tr>
<td>Politician (Party)</td>
<td>Banzer/Quirigo (ADN)</td>
</tr>
<tr>
<td>Econocrats</td>
<td>J. A. Morales, H. Muller Costas</td>
</tr>
<tr>
<td>Domestic clash?</td>
<td>Yes, implicitly</td>
</tr>
<tr>
<td>Alternative explanations</td>
<td></td>
</tr>
<tr>
<td>Bureaucratic capacity</td>
<td>−0.6</td>
</tr>
<tr>
<td>(−2.5 to 2.5)</td>
<td>0.25</td>
</tr>
<tr>
<td>Corruption (CPI)</td>
<td>2.8</td>
</tr>
<tr>
<td>(1 to 10)</td>
<td></td>
</tr>
<tr>
<td>Top-down reforms?</td>
<td>Anti-adjustment agenda</td>
</tr>
<tr>
<td></td>
<td>de facto autonomy</td>
</tr>
</tbody>
</table>

Table 5.4: Summary of Cases
Bolivia 1998

Program

Bolivia was a model pupil of the IFIs beginning from late 1990s until 2006 when it withdrew from the Fund. Dijkstra (2011, 114) argues that “Bolivia had an excellent ‘track record’” in IMF and WB programs, “often complying with more than the donors demanded.” The 1998 program was implemented mostly by the econocrats of the Central Bank and the Treasury despite domestic political turmoil and the Argentine economic collapse. The narrative, though, shows that compliance initiated by state elites may have led to unintended consequences, namely public frustration and resentment towards the IMF.

Bolivia is a socially and politically fractured country which has experienced 182 coups since its independence in 1809 (Kaplan 2006, 505). As seen on Table 5.4, its World Bank Aggregate Governance scores were −0.6 and 0.25 for government effectiveness and regulatory quality respectively on a scale of −2.5 to 2.5 (Kaufmann, Kraay & Mastruzzi 2010). Bolivia’s Corruption Perception Index score was 2.8 on a scale of 1 to 10 in 1998 (Lambsdorff 1996). Bureaucracy in general is deemed as ineffective due to the well-rooted system of patronage and the high rate of turnover (Barr 2005, 81). In other words, Bolivia is not a client with high regulatory capacity.

Past Bolivian experience with the Fund consists of six programs between 1986 and 2006. The 1998 program was a PRGF (previously known as ESAF, later named as ECF) for which 63 percent of the approved loans had been distributed. This refers to an implementation ratio slightly lower than the average of others in this category (49 programs with an average of 71 percent), but right on track for the whole sample (64 percent). This agree-

115 In essence, the Morales government announced that Bolivia would not be seeking immediate IMF assistance after the conclusion of the 2003 agreement. IMF staff continues to visit Bolivia for the annual Article IV consultations and publish a report on the macroeconomic conditions and risk assessments of the country.

116 “Bolivianization” is a term used to refer a process of political decomposition.
ment was signed immediately after the successful completion of another PRGF (ESAF) that started in 1994, and was followed by an SBA in 2003. Both 1998 and 2003 programs were suspended despite admissible implementation levels (76 percent for the 2003 SBA).

Before the 1998 agreement, between 1993 and 1997, Sánchez de Lozada –known as “Goni”– was the President of Bolivia, elected on the Movimiento Nacionalista Revolucionario (MNR) ticket. During his term, the Bolivian government carried out constitutional and administrative reforms including a pension reform, privatization of public enterprises, and the 1994 Law of Popular Participation which initiated “the transfer of 20% of fiscal revenues to municipalities” (Dijkstra 2011, 114). These changes, however, did not lead to poverty reduction. As a result, the opposition party, Acción Democrática Nacionalista (ADN), used an anti-structural adjustment agenda in the 1997 elections, and their candidate Hugo Banzer –a former dictator– won the presidency. He had to resign in 2001 on health grounds and was replaced by his vice president, Jorge Quiroga. The Banzer/Quiroga government did not succeed in diminishing poverty, and lost credibility following widespread accusations of corruption. Social unrest began in 1998, and culminated with the “water wars of 2000” –protests against the privatization of water resources in Cochabamba (Dijkstra 2011, 115).

The 1998 program was initiated as an Enhanced Structural Adjustment Facility (ESAF), a loan instrument for low-income countries, which offers funds on concessionary terms. It was signed following the completion of the 1994 Enhanced and Extended Structural Adjustment Facility (EESAF), a program that was implemented successfully and praised by the Fund officials despite some delays (EIU 1996a, 3). The 1998 program was later renamed as a Poverty Reduction and Growth Facility (PRGF) in 1999. Bolivia was one of the first clients of the Fund that borrowed through this restructured facility.

After the June 1997 elections, the ADN-led coalition government of President Banzer scrapped the anti-structural adjustment rhetoric and “launched a two-week National Dialogue on October 6th, entitled Bolivia hacia el siglo XXI (Bolivia into the 21st century)”
in order to “promote consensus on government policy” (EIU 1997a, 9). Even though this effort was dismissed by the opposition, it signaled IMF and other financial institutions that “the fundamentals of the previous government’s pro-business policies are not under threat” (EIU 1997a, 9). The government unveiled the outcome of this dialogue, the Plan General para el Desarrollo Económico y Social (PGDES, General Economic and Social Development Plan), after consulting with the Fund officials on November 26th, 1997. The Fund expressed hope for the Bolivian economy based on this plan and government’s efforts to control inflation and fiscal deficit (EIU 1997a).

In 1998, Conciencia de Patria (Condepa) left the ADN-led coalition government, followed by a cabinet reshuffle. As part of a new economic team, a new finance minister was appointed: Herbert Müller Costas, “a respected private-sector economist and energy minister during the Paz Zamora government (1989-93) and a political independent” (EIU 1998a, 11). Considering Müller’s background and detachment from politics, his appointment might be interpreted as a strong signal to the IMF that the Banzer government was serious about implementing the economic program. In fact, the Economist Intelligence Unit (EIU) report on Bolivia suggested that the new finance minister “will carry forward the government’s commitment to fiscal discipline,” an important program condition for the Fund (EIU 1998a, 7).

In September 1998, Bolivia signed a three-year ESAF with the IMF in addition to a multilateral debt relief under the Heavily Indebted Poor Countries (HIPC) program. The $138 million loan was to be disbursed in six-monthly tranches of $23 million each. Conditions attached to this program were deemed as “ambitious targets” that consist of “annual GDP growth reaching 6% by 2000, average annual inflation falling to 5.5%, a reduction of the fiscal deficit to 3.2% of GDP and a current-account deficit equivalent to 5% of GDP” (EIU 1998a, 11).

In the meantime, two crucial developments –one domestic and one international–
happened: President Banzer launched a forced coca eradication plan (Plan Dignity), and a regional economic crisis hit Latin America. Bolivian economy depended heavily on coca and natural gas exports. Eradication of coca meant losing the one third of exports, worth approximately $1.5 billion in an economy of $8 billion (Barr 2005, 76). To implement the US-backed plan, Bolivian government deployed security forces. Deadly clashes took place between these forces and the coca growers. In August 1998, 1000 protesters marched from Chapare to La Paz to stop the plan (Arce & Rice 2009, 92). In addition, Bolivia lost its regional market to a great extent due to the 1998 financial crisis in Brazil, a country that accounts for approximately 30% of Bolivia’s exports (UN 2014). Gas output of Bolivia therefore declined. Devaluation of the Brazilian Real in January 1999 and the falling world commodity prices, coupled with Bolivia’s heavy dependence on primary commodities crippled the Bolivian economy. GDP growth rate fell from 5 percent to 0.6 percent in 1999 (EIU 2000a, 5).

In 2000, the slow economic recovery, high unemployment rates and the “water wars” led to slippages in Bolivia’s program. Yet, because of “the country’s track record on reform, the international donor and financial communities” did not consider these slippages as intentional non-compliance and kept on providing assistance to Bolivia (EIU 2000a, 2). In 2001, following Banzer’s resignation, deviation from program targets became even more prominent. The non-financial public-sector (NFPS) deficit reached approximately 6% of GDP, way ahead of the revised target of 3.7% (EIU 2001a, 2). IMF granted waivers for these missed targets both in 2000 and 2001, while the government took timid steps towards implementation such as non-essential cuts to public spending and re-allocation of funds to investment and job creation. President Quiroga could not run for re-election in June 2002 for a consecutive term, but was believed to be acting to seek nomination for the 2007 elections (EIU 2001a, 1). Hence, both populist economic policies and the concurrent deterioration continued; the program went off-track in 2002. The program was suspended in June 2002, partly to let the newly-elected Bolivian government build up its own economic program.
Sánchez de Lozada won the 2002 elections and began his second term as president in August. Under his leadership, Bolivia signed a one-year SBA with IMF in April 2003. In September-October 2003, widespread strikes and road blocks were initiated by the left-wing groups. Social upheaval resulted in the resignation of President Sánchez de Lozada and a violent suppression by the armed forces. The new government, led by the former Vice President Carlos Mesa, continued the economic program and started talks over a possible three-year PRGF (EIU 2003). Instead, the 2003 SBA was extended until March 2006, yet by then the newly elected President Evo Morales declared Bolivia’s intention to cease its borrowing relationship with the Fund. Since 2006, IMF officials continue to visit Bolivia for the annual Article IV consultations and publish staff reports, but the country no longer seeks IMF assistance.

**Actors**

The previous section presented a summary of contextual information for the 1998 economic program following the template in Table 5.2. In this section, we will take a closer look at the actors.

The Banzer/Quiroga government was a coalition of Acción Democrática Nacionalista (ADN), Movimiento de la Izquierda Revolucionaria (MIR), Unidad Cívica Solidaridad (UCS), Nueva Fuerza Republicana (NFR) and Concienda de la Patria (Condepa). As such, the coalition had a majority of two-thirds in both houses (EIU 1997a, 4). The opposition parties were Movimiento Nacionalista Revolucionario (MNR), Movimiento Bolivia Libre (MBL), and Movimiento Revolucionario Túpac Katari (MRTK). In the first cabinet, 9 out of 16 seats were occupied by members of the ADN, including Edgar Millares, the Minister of Finance.

When Banzer formed his new government in 1997, Juan Antonio Morales Anaya was in his third year of office as the president of the Central Bank of Bolivia. According to his
biography in Crabtree and Whitehead (2001, vii) he was born in Cochabamba in 1943. He has master’s and doctoral degrees in economics from the Catholic University of Louvain, Belgium. He has been a college professor at the Catholic University of Bolivia for 26 years, and also worked at several universities in the Americas and Europe as a visiting scholar. Morales remained in office for 11 years and resigned in 2006. He went back to teaching and stayed out of politics. In short, he is the quintessential conservative econocrat.

Morales was named Latin America’s Central Bank Governor of the Year by the Emerging Markets magazine, a publication esteemed by the WB and IMF officials (Latin America Central Bank Governor of the Year 2005). As the longest-serving governor, he was compared to Alan Greenspan. During his time in office, the Central Bank of Bolivia shrank in size, became a more efficient monetary authority through reforms in information technologies, accounting system, and training of the employees (Latin America Central Bank Governor of the Year 2005). He collaborated with the IMF on technical assistance programs, and most importantly lowered inflation to less than 5 percent. The following quote establishes his type clearly (Latin America Central Bank Governor of the Year 2005).

Morales Anaya may not have seemed like a natural for the job. Before being appointed to preside over the central bank in 1995, his entire professional career had been spent in academia, teaching economics and then leading the department at the Bolivian Catholic University in La Paz for over 20 years. But the seasoned academic had cemented his credentials as a leading economist, both at home and internationally. He was also the first central bank president to be named to the post through an institutional process in which he was handpicked from a shortlist by the Bolivian president.

117In September 2011, Morales Anaya was put under house arrest by the Evo Morales government, accused of “illicit enrichment based on bonuses that he received and provided to bank employees in 1995-97,” a practice that was legal at the time (USDS 2014). He was released after more than a year. The event was widely seen as politically-motivated (Margolis 2011, Rough Justice 2012). Morales Anaya continues to teach and write op-eds on Bolivian economy.
As expected, Morales was appointed by a politician, former president Sánchez de Lozada, a US-educated entrepreneur who initiated a comprehensive reform package between 1993 and 1997. His appointment of a conservative econocrat, therefore, may be considered as part of this package as well as the IMF-sponsored program of 1994. In fact, the Autonomy score of the Bolivian Central Bank jumped from .3 to .63 during this program, and to .78 after the 1998 program. That is to say, the CBG of Bolivia was a highly autonomous econocrat with conservative policy preferences.

During Morales’ term, nine finance ministers rose and fell, four of which served while the IMF program was under way: Herbert Müller Costas, Ronald Maclean-Abaroa, José Luis Lupo Flores, and Jacques Trigo.

Müller, a private-sector economist and energy minister during the Paz Zamora government (1989-93), entered the cabinet as a political independent (EIU 1998a). An industrial engineer by training, he holds a master’s degree in business administration. He has worked both in public and private sectors as Under-Secretary for Monetary, Banking and Credit Policy at the Ministry of Finance, President of the Bolivian Central Bank (1983-84), President of the Cuenca del Plata Financial Fund (FONPLATA), Moderator of the Technical Advisory Group of the World Bank Energy Sector Management Assistance Program, and right before his appointment as the MOF, Consultant of the National Dialogue (Müller Costas 2014). Müller founded a consulting firm, Müller & Associates, after he was replaced by Ronald Maclean-Abaroa.

Maclean-Abaroa, an economist with a master’s degree in public administration from Harvard University, served as minister of finance very briefly, between April and December 2000 (MacLean-Abaroa 2014). Before joining the cabinet, he had been elected as the mayor of La Paz four times (1985-1997). He has held five cabinet positions in the Banzer/Quiroga government including planning, foreign affairs, information and communications, finance and sustainable development, and environment. He ran for presidency in 2002, and joined the
José Luis Lupo Flores is an economist with a master’s degree in international economics. Before his appointment, his career included teaching at the Catholic University of Bolivia and public service at the Unit for Social and Economic Policy Analysis at the Bolivian Ministry of the Treasury and Economic Development (UDAPE). He was the minister of finance from January to August 2001. Also an independent, Lupo Flores “has become close to the president, was appointed finance minister, his diplomatic skills and record for getting things done earning him the top economic post” (EIU 2001b, 12). It is argued that this change came as an appeasement for the business groups, which demanded “a relaxation in recently tightened banking regulation and government support to help them restructure their debts on more favourable terms that Mr. Maclean opposed” (EIU 2001b, 12). Lupo Flores was also replaced shortly after his appointment and joined the World Bank like his predecessor (Lupo Flores 2014).

Jacques Trigo became the MOF in August 2001 after President Banzer stepped down and his Vice-President Quiroga formed his cabinet. Like previous ministers, Trigo was an independent and served as the former banking superintendent before his appointment. He is an economist with a PhD in monetary politics. He has worked at the IMF in 1975 and later became the central bank governor in 1988 (Trigo 2014). He was described as a member of the technocratic wing of the cabinet as opposed to a seasoned politician (EIU 2001c). After the June 2002 elections, he established a consulting firm named Trigo & Associates.

In addition to the Central Bank and the Ministry of Finance, Treasury and the UDAPE played significant roles in shaping the Bolivian economy. UDAPE is “a think-tank which provides technical assistance to the planning ministry and latterly the finance ministry” (Morales 2001, 55). The CBG of the period, Morales, describes these institutions as ‘modern’ institutions with good reputations and underlines the importance of their institutional autonomy as well as the role of IFIs in attaining that kind of power (Morales 2001,
Policy-making at the macroeconomic level has probably suffered less from party political influences than at the sectoral level, mainly because commitments with the international financial institutions have reduced the scope for corruption and inefficiency. In the more specific cases of the Central Bank and the Contraloría, political independence has been key to their performance. To the extent that they benefited from statutes granting them substantial autonomy, they have managed to recruit qualified professionals and isolate themselves from political pressures.

Carlos Mesa, who became president after Sánchez de Lozada’s resignation, describes these institutions as having “an inflexible tyranny in policy design” and acting with “total autonomy” from the executive branch (Mesa Gisbert (2008, 150), as quoted in Kohl and Farthing (2009, 65)). According to his memoir, Mesa was unable to “influence the largely autonomous Treasury department which “in an obsessive manner” followed neoliberal prescriptions dictated by its real outside influences, the IMF and the World Bank” (Kohl & Farthing 2009, 71). Morales confirms the presence of tension between econocrats and politicians (Morales 2001, 56).

Bolivia possesses a substantial number of well-educated technocrats and public servants, more so than many Latin American countries at a similar level of development. That political discourse tends to be peppered with technocratic jargon and with even populist parties claiming they have teams of qualified technicians is illustrative of the power gained by the technocracy. Yet, political leaders, especially at the local level, resent this power. Nowhere is the opposition between the political establishment and the technocratic elite more apparent than in Congress. Committees in both houses of Congress, citing their oversight role (poder fiscalizador) to summon government technocrats to account in hearings (informes orales). Since party politics and the vested interests of specific con-
stituencies influence the work of congressional committees, these hearings frequently become forums for political vendettas, as well as for deals to increase the number of political appointees in government.

Evaluation

Bolivia, in the midst of social upheaval and regional economic crisis, was able to implement the 1998 program to the satisfaction of the Fund officials. Even though its implementation rate was average, Bolivia continued to receive waivers for delays and slippages as well as the Fund’s verbal blessing until the 2002 elections. Considering the backgrounds and future occupations of the econocrats mentioned above, this case strongly suggests a positive relationship between conservative policy preferences and the ability to receive waivers.

Alternative explanations such as a high level of administrative capacity, a reform-minded leader or a “habitable” international economic environment are not plausible for this case. Just to recount, bureaucratic capacity scores for Bolivia are low, and the perception of systemic corruption is widespread. Although Sánchez de Lozada was described as a reform-minded leader, he was replaced by Banzer who ran on an anti-structural adjustment agenda in 1997. President Banzer and later President Quiroga were under societal pressure to step away from the conditions of the 1998 program. More importantly, the 1998 Asian financial crisis spread throughout Latin America ailing major trade partners of Bolivia. Under these conditions, it is possible to attribute the tolerance of the Fund for partial implementation to the presence of neoliberal-minded econocrats at the Bolivian Treasury and the Central Bank.

This relationship, however, may have also caused new problems while solving others. The narrative suggests that conditions attached to the 1998 program were stricter than expected in a PRGF. Kohl and Farthing (2009, 63) argue that “US-trained economists in Latin America see neoliberal ideology as the only possible analytical framework available.”
Therefore, conservative econocrats equipped with institutional autonomy may have pushed for reforms that have not been internalized fully by the public yet. This kind of disparity about the sources of public welfare may lead to social unrest as well as conflicts of interest inside the government. President Mesa’s frustration with the agents of economic decision-making is a proof of such a clash.

These findings are highly congruent with some of the hypotheses on Table 5.1. First and foremost, conservative econocrats were insistent on implementing the IMF conditions despite the domestic and regional turmoil (Hypotheses 11, 13, 14a). They were also successful in receiving waivers even though they kept on missing targets (Hypothesis 10). This case provides no concrete information on whether or not they asked for stricter-than-necessary conditions, yet we know that they did not object publicly. Consequently, Bolivia had to deal with strict program conditions under severe economic conditions (Hypotheses 3, 5).

Bolivia is an interesting case which shows an error in the logic of domestic and international bureaucrats. While they share a common understanding of what good economic governance is and how to attain it, they may fail to factor in the societal and regional dynamics. In Bolivian case, conservative econocrats in the Treasury and the Central Bank did nothing but their job by using their discretionary power. These efforts, however, led the way for an uprising that framed IFIs and their neoliberal ideology as the single most important cause of poor economic conditions. Kohl and Farthing (2009, 62) state this sentiment:

Countries highly dependent on development aid were locked in an unequal power relationship that, along with the *collusion of national elites* who considered cooperation with global economic orthodoxy in their best interest, ensured that neoliberal practices spread through finance ministries around the world and deepened their influence within international development organizations [emphasis added].
This perspective is an unexpected consequence of IMF involvement coupled with conservative, independent economic bureaucracies as its allies. It spread to other parts of the region including Venezuela, Brazil and Argentina. In short, having econocrats akin to their international counterparts in office may increase the likelihood of compliance with IMF conditions; yet it also increases the likelihood of domestic conflicts of interests (Hypothesis 9) and it even may reduce the Fund’s long-term influence on its clients.118

Pakistan 1995

Program

Pakistan, an “experienced” client of the Fund, had an almost continuous track record of arrangements since the late 1980s. With the exception of the 2000 SBA, all six of the arrangements between 1988 and 2001 “suffered from substantial policy slippages and soon went off-track, usually after the first or second review” (IEO 2002, 119). The 1995 SBA—a 15-month program worth $600 million—was first extended due to slippages and later suspended in 1997 with only 52 percent of the total loan amount disbursed. The Pakistani case indicates that having econocrats with conservative policy preferences is not a sufficient condition for better implementation. Without job security guaranteed by institutional autonomy, econocrats may have difficulties in communicating the economic and political conditions of their country to their counterparts at the IMF. Consequently, they are less able to influence the terms of the repeated financial agreements, which underestimate the implementation risks and become extremely overambitious due to IMF’s own limitations. On the other hand, the anecdotal evidence from Pakistan suggests that IMF involvement helps increase the informal autonomous power of econocracy.

118Recently, IMF warned Bolivian government about the Central Bank’s direct lending to public corporations and the erosion of the Bank’s independence (IMF 2014). Bolivian government, being free of any debts to the Fund, did not concur.
Pakistan, a federated, bicameral semi-presidential system, was founded in 1947. In the 1985-1996 period, 10 governments came to power; only four of these governments were democratically elected and three of them were dismissed by the president on grounds of corruption (Zaidi 1996c). The average tenure of a Pakistani government between 1988 and 2000 was 18 months long (IEO 2002, 127). This highly unstable political environment stemmed from ethno-religious tensions in Pakistan as well as structural problems created by the veto actors. The Eighth Amendment of the Constitution grants the President, elected for five-year terms by the federal legislature, power to oust the prime minister and his/her cabinet.

Pakistan’s WB Aggregate Governance scores were −0.59 and −0.45 on a scale of −2.5 to 2.5 and its Corruption Perception Index score was 2.25 on a scale of 1 to 10 in 1996 (Kaufmann, Kraay & Mastruzzi 2010, Lambsdorff 1996). Pakistan suffers from chronic budget deficit, high interest rates, high inflation, low savings and low economic growth (Zaidi 1996b). Between 1988 and 2000, GDP growth fell to 4 percent a year from the average rate of approximately 6 percent for the 1970s and 1980s; as a result almost 30 percent of the population were living below the poverty line at the end of the 1990s (IEO 2002, 120-121). In other words, even the 4 percent growth rate has not translated into social development (Rodrik 2003, 11). Easterly (2003, 464) explains this failure with Olson’s (2000) “roving bandit” syndrome: “State institutions dominated by a highly fragmented set of military and landed elites have had little incentive to produce public goods and therefore have not done so.”

The fact that Pakistan was able to strike back-to-back deals with IFIs despite its poor governance scores and economic maladies is attributed to its crucial position in international politics (Stone 2004). Vreeland (2002b, 72) notes that “as a Cold War American ally, Pakistan was the world’s third largest recipient of foreign aid over the last four decades;” meaning Pakistan held this status even after the Cold War and before the U.S. War in
Afghanistan. The 1995 program falls into this period.

The preceding arrangement, an EFF negotiated by a caretaker government, was signed by Benazir Bhutto after Pakistan People’s Party’s (PPP) victory against the former PM Nawaz Sharif’s Pakistan Muslim League (PML-N) in the October 6th, 1993 elections. Bhutto stated her intention to work with the IMF and declared that she would not reverse the economic reforms (IEO 2002, 140). While she kept this promise, the government did not take any steps towards implementing new reforms. In June 1995, a very mild budget devoid of any of the IMF conditions was announced. Economic fundamentals did not improve and due to trade imbalance, “foreign reserves plunged from $3.5 billion to $1.3 billion during the first four months of the 1995-6 fiscal year, which led to a 7% devaluation of the rupee (PR) on October 28, 1995” (EIU 1996f, 19). The Fund officials lost their belief that the program conditions would be met and froze the remaining tranche of the arrangement. Between October and December 1995, “top officials of the government of Pakistan made numerous trips to Washington trying to appease the IMF and to convince them of the sincerity of their intentions in carrying out the rest of the program” [emphasis added] (Zaidi 1996a, 2728). As a result, the 1994-96 EFF was aborted in December 1995 and replaced by a stand-by arrangement. This SBA was sought after by the Pakistani government insistently and considered as a bridge to another multi-year loan package (EIU 1996f, 19).

On his return from Washington, Vasim Ahmad Jaffrey, the prime minister’s economic adviser, said the stand-by accord would pave the way for a new multi-annual adjustment programme to replace the three-year reform package scrapped by the IMF after last June’s budget, adding that much of the detail had been negotiated. The Fund specified that a comprehensive medium-term programme, the basis for a resumption of Enhanced Structural Adjustment Facility (ESAF) lending, could get under way in 1996/97, assuming the interim package was rigorously implemented.
The 1995 program targets included reducing budget and current account deficits to 4% of GDP, “the raising of foreign reserves to $2.1 billion, the equivalent of over nine weeks of imports; and the reduction of inflation to 9%” (EIU 1996f, 7). To achieve these goals, the program conditionality included fiscal reforms with an emphasis on increasing the ratio of direct taxes, measures to liberalize the trade system, and privatization of public enterprises (Fatima & Ahmed 2002, 517). Some of these conditions are considered harsh and overambitious: Fatima and Ahmed (2002), for example, emphasize that the measures required by the Fund to liberalize trade were more than even those of the World Trade Organization (WTO). The program, however, did not require any structural reforms (Zaidi 1996b).

One third of the IMF loan was disbursed immediately in December 1995. The next tranche, another $200 million, was scheduled for March 1996; instead only $78 million was released (EIU 1996g, 9). IMF refused to release the whole amount due to Pakistani government’s resistance to reduce import duties (Fatima & Ahmed 2002, 517). In addition, the Fund criticized government’s use of privatization proceeds to underwrite recurrent and capital spending instead of to retire the government’s domestic debts (EIU 1996g, 9).

In May 1996, right before the budget was announced in June, an IMF team visited Pakistan. Around this time, “the government was clearly having misgivings about some of the commitments it had entered into, with ministers publicly insisting that the IMF had to be aware that there could be significant political fallout if its prescriptions were implemented to the letter” (EIU 1996g, 9). In harmony with these signals, the 1996/97 budget did not include the reductions in tariff rates and import duties even though it extended the General Sales Tax (GST) to all imported goods and increased the standard rate from 15 to 18% (EIU 1996h, 18). The IMF raised several objections to this PRs 500.2 billion ($12.5 billion) budget. More

119Program conditions included measures such as elimination of tax/duty exemptions, extension of the General Sales Tax (GST) to all manufactured and imported goods, elimination of the special 10% regulatory duty on imports, and phasing out of income tax exemptions (EIU 1996g, 9).
importantly, Pakistani government was manipulating “budget figures by retiring enough loans a few days before the conclusion of each quarter to meet the quarter’s borrowing requirement, and then re-borrowing the amount within days” (EIU 1996h, 18). The IMF found out that the average amount of this scheme for every quarter was approximately PRs 30 billion ($868 million). Meanwhile, nationwide strikes ensued, and the Pakistani army started holding meetings with economists to discuss government’s policies (EIU 1996g, 9). In August 1996, IMF refused to disburse yet another scheduled tranche (EIU 1996h, 7-8):

The IMF has delayed disbursements of two tranches amounting to nearly $200 million due in the last fiscal year (1995/96). The stand-by arrangement with the IMF will have to be renegotiated, but a planned trip to Islamabad by a delegation from the IMF at the beginning of August to discuss the release of the third tranche of $65.5 million was postponed. Now Pakistan will have to wait until the annual World Bank/IMF conference in Washington in late September before any new deal can be brokered.

In September 1996, the Pakistani rupee was devalued by 3.65%. In October, Bhutto sent a high-powered delegation to Washington led by Muhammad Yaqub, the governor of the State Bank of Pakistan (SBP, the central bank), for talks with the IMF. Yaqub promised that the government would “revamp its original 1996/97 budget of June 13” and implement a package including the devaluation of the rupee, new budget expenditure cuts and tax increases, and a rise in oil prices (EIU 1996h, 16). He also openly warned the government about the worsening economic fundamentals. Having “gained in stature as Ms. Bhutto gave up the finance portfolio,” Yaqub was successful in convincing the Fund for an extension one week before the dismissal of the Bhutto government (EIU 1996i, 7).

On November 5th, 1996 President Leghari dismissed the Bhutto government. A caretaker government was formed under the leadership of a former speaker of the National
Assembly (lower house), Meinar Khalid (EIU 1996i, 7). Shahid Burki, a former WB official, was appointed as the minister of finance (Fatima & Ahmed 2002, 505). On February 3rd, 1997 elections were held. Nawaz Sharif became the new PM, and Sartaj Aziz the new MOF. Although Sharif had a better record of compliance with the IMF, he quickly lost popularity (Fatima & Ahmed 2002, 510). Following the 1998/99 economic downturn which brought Pakistan close to declaring a default, General Pervez Musharref overthrew the government in October 1999.

Actors

Benazir Bhutto’s PPP was a moderate Islamicist party with a center-left, social democratic position on economic issues. Coming from a powerful political family, Bhutto entered politics in early 1980s and presented herself as a “champion of democracy” (Zaidi 1996c, 21). She formed her first cabinet in 1988, only to be dismissed by the President in 1990. In 1993, she ran against the conservative Islami Jamhoori Ittehad (Islamic Democratic Alliance–IDA) under the leadership of Nawaz Sharif on a pro-business and agriculture agenda. After her victory, she took charge of the portfolio of the Ministry of Finance. Bhutto set her economic policies with a small group of advisors led by Vasim Ahmed Jaffrey.

By monopolizing economic decision-making in her own hands, Bhutto signaled the precedence of economic policy in her agenda as well as her unwillingness to delegate her authority over this issue. Holding the finance portfolio means a tighter political control over the implementation of the IMF-sponsored policies. An advisor –compared to a minister– has a career more dependent on the PM; hence, he or she has less room for disagreement and may abide by his or her principal’s policy stance more faithfully.

The only other actor in economic decision-making was Muhammad Yaqub, Governor of the State Bank of Pakistan (SBP). According to his official biography (SBP 2014), Yaqub has two master’s degrees from Punjab University and Yale University, and a Ph.D. in eco-
nomics from Princeton University. He started his career in the research department of the SBP in 1960. He worked at the IMF between 1972 and 1992. He was the Assistant Director of the Middle Eastern Department from 1981 to 1982 (Mussa, Boughton & Isard 1996, xiii). After his resignation, he joined the Pakistani government as Principal Economic Advisor at the Ministry of Finance.

Yaqub was appointed as governor on July 23rd, 1993, before Bhutto came to power. He remained in office until November 5th, 1999. He had a reputation of “being a tough disciplinarian” (Bokhari 1994). Formally, the SBP did not enjoy the autonomy that the Central Bank of Bolivia had. In 1994, the SBP Act of 1956 was changed to give the institution “administrative and functional autonomy, with guarantee of tenure to the Governor and SBP Board of Directors and some influence on the determination of government borrowing from the banking system” (Yaqub 2011, 20). These reforms were, in Yaqub’s words (2011, 20), not adequate. Specifically, there were ambiguities about the role of the Monetary and Fiscal Policies Coordination Board, created by the 1994 SBP Act. The Board, composed of politicians and bureaucrats from other agencies, has stepped outside of its authority in formulating and implementing monetary policy. Thus, in 1997 SBP Act was amended once more to clarify this issue and declare SBP as the sole authority in monetary policy.

These legal changes were not granted by the government, but were rather earned “after a long struggle and great deal of effort” (Yaqub 2011, 22). In fact, the 1997 reform was made possible by the increase in the de facto independence of the SBP. Under the Fund’s supervision, Yaqub’s capacity to express SBP’s concerns on economic decisions expanded. For example, following the Fund’s statements on the high amount of domestic borrowing, Yaqub warned the government on the subject and “repeatedly insisted on the need for the government to respect the budgeted borrowing level so as to contain monetary expansion and inflation” (EIU 1996f, 20). The SBP’s de facto independence continued to expand until the last days of the Bhutto government. The quote below suggests that this change was
directly related to the IMF’s preference for Yaqub as a counterpart rather than Bhutto’s economic advisors (EIU 1996i, 16):

Mr. Yaqub made a veiled attack on the economic policies of the Bhutto government in the central bank’s annual report, released a day before the IMF mission arrived in Islamabad. In the report, Mr. Yaqub warned the Bhutto government to avoid “slippages” in meeting important economic targets. The central bank governor’s comments and the package of economic measures released in late October, were signs of the central bank’s growing independence under its governor. Ms. Bhutto announced a week before her government was forced to resign that she would relinquish the finance portfolio. The decision was seen as part of a package of moves to please the IMF. The Fund had also expressed its reservations over dealing with the then finance adviser to the Bhutto government, V. A. Jaffrey. Among other criticisms of the finance adviser, there had been reports that Mr. Jaffrey had misled IMF officials during negotiations in Washington.

Another example of the growing authority of the SBP was its take-over of a state-run bank, United Bank Ltd. (UBL) in April 1996. The UBL, one of the largest public sector banks of Pakistan, came under scrutiny after 26 percent of its shares were sold to a Saudi Arabian group. The sale was blocked by UBL’s depositors whose interests were ignored in the deal. The following investigation showed that UBL’s profitability has fallen due to overstuffed branches and bad loans to “politically powerful borrowers” (Bokhari 1994). After the SBP took over UBL, Yaqub announced the new board of directors.

In October 1996, it was Muhammad Yaqub, who persuaded the IMF officials to extend the program. He called the conditions attached to the revised program “unavoidable adjustment pains,” and argued that cutting public spending would not cause new problems as “construction of a government bungalow under a development scheme does not contribute to economic growth” (Stackhouse 1996). Yaqub’s concealed criticism of the spending and bor-
rowing habits of the federal government was also shared by the IMF officials. Although they “privately express[ed] deep anger with the Bhutto government for misleading them about the state of Pakistan’s finances,” they still agreed to give an extension for the suspended 1995 program (Stackhouse 1996).

As mentioned before, this new agreement coincided with the Bhutto government’s release of the finance portfolio to Muhammad Yaqub. A proof of that transfer is a newspaper article of October 24th, 1996 which reports on the new fiscal plan as announced by the SBP (Pakistan plans cuts, tax rises. 1996). In other words, the monetary authority of Pakistan made an announcement on cuts in public spending and additional taxes. Yaqub also stated that the economic package was different from the Fund’s proposal, and the Fund accepted it as a starting point to restore the 1995 program (Pakistan plans cuts, tax rises. 1996). This means the SBP negotiated with and convinced the Fund officials on the merits of the Pakistani reform package including fiscal measures.

After the Bhutto government was dismissed by the President, Yaqub remained as the Governor of SBP. However, he clashed with the Nawaz Sharif government over “the government’s violation of targets set for public-sector borrowings and money supply growth” (EIU 1998c, 17). After Sharif “publicly snubbed” Yaqub at a conference, he decided to resign (EIU 1998c, 17). “He was persuaded by the finance minister to stay on until after the conclusion of the negotiations with a visiting IMF team” (EIU 1998c, 17). The Economist Intelligence Unit Country Report concludes at the time that the Sharif government would have lost its international credibility if Yaqub did not retract his resignation.

Yaqub’s key role in communicating with the IMF won him a seat at the National Security Council of General Musharraf, the highest decision-making body after the 1999 coup. Military leaders considered him as “acceptable to the International Monetary Fund,” a trait quite valuable for a country “close to defaulting on its international debts” (Dugger 1999, 13). Yaqub resigned from the Council in just two months due to “criticism in Pakistani
newspapers of his handling of foreign-currency problems” (*Pakistan: Don’t Hurry Me* 1999). Since his resignation, Yaqub has been giving seminars and writing articles for newspapers such as The News and Business Recorder. In his recent articles, he argues that “the SBP is being treated as a subordinate department of the ministry of finance” (Yaqub 2012), and “the [current] governor should not blindly accept government instructions to print more currency notes” (Yaqub 2014).

A detailed search of the newspaper articles of the period revealed no other prominent actors in economic decision-making. This is somewhat expected as Bhutto signaled her desire to keep the economic agenda by not appointing a finance minister. From 1993 to 1997, Yaqub rises gradually as another important figure, and carves out a domain of policy-making for his institution. Yet, he refrains from clashing openly with Bhutto. Even though there are newspaper articles on his clashes with Nawaz Sharif, successor of Bhutto, after 1997; no such stories can be found for the pre-1997 period.

**Evaluation**

The 1995 program of Pakistan presents a significant opportunity for us to evaluate the theoretical positions of two explanatory variables: policy preferences and institutional autonomy. Pakistan of 1995-1997 employed an econocrat who had transnational, conservative, neoliberal policy preferences, however lacked institutional autonomy to apply these preferences. Muhammad Yaqub is one of the quintessential econocrats: an economist by education, socialized in IFIs and has had bureaucratic rather than political career interests. His resignation from the National Security Council as well as his current writings help us establish his identity as a conservative econocrat.

Being devoid of legal autonomy, his strategy did not include direct and public clashes with political leaders. Therefore, he was seen as a valuable asset by Benazir Bhutto, Nawaz Sharif and General Perwez Musharref in communicating with the IMF. As expected, his
influence on the implementation of IMF conditions was indirect and not nearly as strong as the influence of the Bolivian econocrats. This result is evident in the difference between the disbursement ratios of the two countries: 63 percent for Bolivia and 52 percent for Pakistan. In terms of waivers granted, Bolivia received one for each program year, whereas Pakistan received one only for the first year. That means IMF becomes a stricter lender even for a country as strategically important as Pakistan if prospects for compliance seem poor; and one of the biggest signals of partial implementation is a conservative econocrat with limited autonomy.

These findings suggest that institutional autonomy is a necessary condition for conservative policy preferences of econocrats to be influential on the implementation level. If Yaqub were to enjoy more agency slack, he could have moved economic policy more towards the IMF’s ideal point. Yet, as the Bolivian case reminds us, this may have resulted in domestic conflicts of interests and even more widespread uprisings. According to the cheap talk game in Chapter 3 and the related Hypothesis 12, conservative econocrats without agency slack may still influence policy through misrepresentation of the economic fundamentals. In the Pakistani case, I do not have enough first-hand resources to accept or reject this causal path. To evaluate this argument, I will turn to interview data from Turkey.

On the other hand, the findings from this case are highly congruent with three of the hypotheses on Table 5.1. First, as Hypothesis 8a points out, conservative econocrats’ ability to convince IMF officials to grant more flexible conditions seems to be pivotal in achieving higher implementation rates. In 1997, the IMF program in Pakistan was resumed after Muhammad Yaqub’s visit to Washington. The resurrected program was true to the spirit of IMF’s preferred conditions, but essentially much more flexible than the Fund’s proposal *(Pakistan plans cuts, tax rises. 1996)*. IMF officials confirm this input as well (IEO 2002, 122):

(...*) former IMF mission chiefs for Pakistan pointed out that there were few
cases where the authorities had approached them with viable policy alternatives. When they did, particularly from late 1998 onward, their proposals were often incorporated into the program framework.

Conservative econocrats’ biggest asset then is their ability to communicate with the Fund and strike better deals. This also explains why borrowing governments keep employing them even though they do not see eye to eye with political leaders on every aspect of implementation all the time.

This effect, however, is observed when econocrats enjoy some level of autonomy. The quotation above underlines the fact that before 1998, IMF officials did not get much input from the economic team. In fact, they deem some program targets before this date as “unrealistically ambitious” (IEO 2002, 123). It is also said that politicians encouraged the overoptimism of revenue projections, because this helped them avoid the unpopular budget debates, and later let them “impose a degree of expenditure restraint that would have been unacceptable before” (IEO 2002, 124). The Fund officials also diagnosed that overambitious program targets and overoptimistic projections did not mean the government truly intended to comply with the IMF’s conditions (IEO 2002, 127):

(...) as political difficulties arose, it often appeared that the reform agenda of the economic team had little backing at the highest political level, at least in the sense that top decision makers were not sufficiently convinced that the reforms were necessary and that the economic price of postponement outweighed the political costs of early implementation.

They even go on to define partial implementation for the Pakistani case: “When conditionality was “hardened,” in the mid-1990s conditions were often met in ways that minimized the impact” (IEO 2002, 128).

Examples include passing the law on the extension of GST to the services sector, but
not implementing it; adopting a new tax with many exemptions; creating new exemptions while abolishing the old ones; reversing or suspending measures adopted to fulfill the IMF conditionality. By meeting the letter but not the spirit of the agreements, Pakistani government was buying time and cheap loans to further its debt cycle (IEO 2002, 138). This finding is perfectly in line with the results of the signalling game in Chapter 3 and the Hypothesis 8b. When governments sign IMF agreements with no intention to implement the attached conditions, they tend to go overboard with the strict, overambitious conditions. They in fact exploit IMF’s inclination towards “tough” programs (IEO 2002, 136):

There is a rather widespread perception, shared by Pakistan officials and many IMF staff, that the decision-making process of the IMF was biased toward programs that look “tough” on paper, even if their substantial doubts about their realism.

The second contribution of this case is in its distinguishing effect between Hypotheses 8a and 8b. Conservative econocrats with autonomy are able to communicate with the Fund officials, and because of their credibility, they are more likely to get more flexible conditions. This ability also translates into better implementation rates, because conditions are simply more implementable. This is what happened in Pakistan after 1998. In contrast, conservative econocrats without autonomy are more likely to ask for stricter program conditions. They might be doing so to satisfy politicians’ desire to receive a higher portion of their country’s quota and/or to implement a higher percentage of reforms knowing that any set of conditions would be partially adopted. Consequently, an overambitious, overoptimistic program is initiated, which results in program failure.

Third, borrowing from the IMF might lead to increase in domestic conflicts of interests (Hypothesis 9). IMF programs empower econocrats by opening a new area of decision-making for them, and by actively promoting the idea of independent regulatory agencies. In the Pakistani case, by preferring Yaqub to Bhutto’s economic advisors, IMF helped the
SBP in its “struggle” to gain operational and legal autonomy (Yaqub 2011, 22). In doing so, IMF also creates a powerful domestic actor with interests not identical to those of the political leaders, hence potential for more domestic clashes. Such clashes came to be after 1997, and prompted the Pakistani governments to apply more pressure on the SBP. This means institutional autonomy is retractable.

Bulgaria 1996

Program

Bulgaria represents a significantly different category of IMF clients, namely Central and Eastern European countries (CEECs) that used to have communist regimes. These countries became members of the IMF after the collapse of the communist bloc. Their economic structures were essentially distinct from the rest of the world, hence their transformation usually included a rapid process of “marketization, deregulation, elimination of central planning, liberalization of prices and trade, privatization, and establishing private-property rights” in addition to parallel processes of democratization and international integration (Campbell 1996, 51).

Some of the issues common to these transition countries included under-developed governance structures, lack of market institutions (e.g. property rights), and the post-socialist rent-seeking culture (Peev 2002). This culture generated “economic agents who are quasi-state officials, quasi-owners, and quasi-managers with a short-term perspective,” and rewarded asset stripping and the export of capital rather than profit maximization (Peev 2002, 84). Consequently, IMF and the World Bank were not just lenders to these countries, but also guides for them to establish a Western-style economic system.

To this end, IFIs encouraged fiscal reforms such as value-added taxes, spending cuts
and reduction of tariffs through “conferences, private consultations, and official publications” (Campbell 1996, 55), “lent their weight and money to the establishment of new central banks” (Hanke 2002, 98), and asked for rapid privatization of public enterprises. In other words, the IMF prescription was surprisingly similar to the generic one written for the market economies experiencing balance-of-payments problems. This similarity evidently caused more problems in post-communist countries such as Bulgaria, which came close to a default in 1997. The Fund’s solution was to *automatize* the monetary policy by establishing a Currency Board.

Bulgaria started accumulating debt in the 1980s. After its transition in 1990, a coalition government of Bulgarian Socialist Party (BSP) and United Democratic Front (UDF) came to power. The new government declared a freeze on Bulgaria’s foreign debt, which continued for two years. This default had the effect of turning IMF into Bulgaria’s only source of liquidity for a long time (Campbell 1996, 59).

Between 1989 and 1993, general government revenues (as percentage of GDP) declined by about 22 percent while expenditures dropped by only 10 percent (Campbell 1996, 59). This downturn was partly a result of the disruption of trade due to the collapse of the economic organization of communist countries, Council for Mutual Economic Assistance (CMEA or the Comecon) and the war in the former Yugoslavia. In this period, the GDP growth fell by 25 percent, and the inflation reached to 80 percent (Minassian 1994, 341).

In terms of bureaucratic capacity, scores of Bulgaria were $-0.31$ for government effectiveness and $-0.12$ for regulatory quality (Kaufmann, Kraay & Mastruzzi 2010). This lack of capacity was evident in the dismal state of the Bulgarian economic statistics. In fact, IMF did not publish any data provided by Bulgaria in its official publications for two years after its membership in 1990 (Minassian 1994, 343). In addition, as mentioned above, post-socialist rent-seeking culture was dominant in Bulgaria and its corruption score was 2.9.
Before 1996, Bulgaria signed three IMF agreements (1991, 1992, and 1994 SBAs), none of which was suspended. For the 1996 SBA, only 20 percent of the agreed loan amount was disbursed, and the suspension followed.

Even though Bulgaria launched a reform package in 1991, the turbulence of transition seemed to continue until 1994, when trade balance turned to positive. In December 1994, BSP won the elections and with its coalition partners had the majority in the parliament, Zhan Videnov became the prime minister (Minassian 1998). In 1995, Bulgarian economy grew by 2.1 percent, and received the highest per capita IMF lending among the other CEECs. Despite this promising outlook, Bulgarian government did not implement the 1995 budget, and the approved 1996 budget was found overly optimistic by the Fund.

In 1996, Bulgaria experienced a steep hike in prices due to the depreciation of the lev followed by mass bank runs. Bulgarian National Bank’s (BNB) measures to restore confidence failed, and the collapse of the exchange rate led to hyperinflation in the first two months of 1997 (Crespo-Cuaresma, Fidrmuc & Silgoner 2005, 846). As a result, GDP dropped by almost 10% in 1996 and by more than 5% in 1997 (Crespo-Cuaresma, Fidrmuc & Silgoner 2005, 847). The depreciation of the lev coupled with the hyperinflation “virtually wiped out [Bulgaria’s] banking system and sent the real economy into a free fall” (Hanke 2002, 93). The dangerously low central bank reserves coupled with the debt-service requirements increased the urgency for an IMF deal (EIU 1996b, 14).

In July 1996, Bulgaria signed a 20-month stand-by agreement of SDR 400 million ($582 million) with the Fund. 40% of this amount was to be disbursed in the succeeding two months. The agreement also provided a bridge to disbursement of other funds such as a World Bank loan worth $150 million and an EU deal worth $51 million, which were held.

\[120\text{This is the first time Bulgaria’s CPI score was measured. In 1996, this score would probably be lower.}\]
back due to slow progress of reforms in 1994 (EIU 1996c, 13).

Conditions attached to the 1996 SBA included “tight monetary policy, structural reforms for the banking sector and restructuring of the state industrial sector” (EIU 1996c, 14). More specifically, the targets were as follows (Minassian 1998, 341):

(...)

- to achieve a drop in the monthly inflation rate to 2.5% by the end of 1996;
- raise the official currency reserves of the country by 50%, so as to enable them to cover 2.8 months of imports by the end of 1996;
- provide for growth of budget receipts equivalent to 2% of GDP through tighter financial discipline;
- improve the level of tax collection;
- increase VAT from 18% to 22%; and introduce a temporary customs duty of 5%. It was envisaged that losses by state-owned enterprises (causing a pseudo-fiscal deficit of 4-5% of GDP) would be reduced by two-thirds, mainly through the closure of 64 major loss-making firms, strengthening the banking system.

The program also “demanded that the domestic prices of energy, and of electricity in particular, be brought into line with international ones,” which meant an almost 100% increase in electricity costs (Minassian 1998, 337).

Some of these conditions were listed as prior actions –measures to be taken before the signing of the agreement– and rejected repeatedly by the Bulgarian government (EIU 1996c, 14). As a result, negotiations broke down several times and parties reached an agreement only after “IFIs adopted a “pay-as-you-go” approach” and opponents like Industry Minister Kliment Vuchev were removed from the cabinet (EIU 1996c, 14). This shows how weak the agreement was in the beginning. Evidently, it fell apart after the disbursement of the first tranche (SDR 80 million) which was paid out almost immediately after the signing of the agreement. That means it took only three months for the program to get suspended.

The disbursement of the second tranche “depended on a review mission in late Au-
gust, whose verdict was that insufficient progress had been made with the closure of the 64 enterprises earlier designated for liquidation” (EIU 1996d, 13). Similarly, reforms required for the banking system were also deemed rather slow. In fact, almost none of the above-listed targets were met, which resulted in the blocking of the disbursements of the second and third tranches. In the meantime, the Bulgarian lev continued to depreciate even though the government increased the interest rates and declared a special supervision regime for nine banks. A high-level visit to IMF headquarters in late September did not result in revival of the program (EIU 1996d, 13).

The presidential election in October 1996 became a popular vote of confidence for the Videnov government and the stand-by agreement he signed. Instead of the BSP-supported Ivan Marazov, the opposition candidate, Petur Stoyanov was elected as the new president. The Fund mission led by Anne McGuirk and her superior, Michael Deppler visited Bulgaria in November 1996, and informed Bulgaria of IMF’s key demand, a currency board similar to those in Argentina and the Baltic republics (EIU 1996d, 13):

This is comparatively simple, because it is seen to be a way of cutting through the entire Gordian knot of problems connected with interest rates, inflation, exchange rate instability, budget deficits, money supply regulation and micro-level financial discipline. It is also categorical; the message has been quite explicitly “no board, no money.”

A currency board involves a linkage between the home currency and an international currency in order to limit the money supply with the amount of foreign exchange reserves. It also means to bypass the central bank, or effectively abolish it since central bank will not be able to control the money supply or refinance banks. Establishing a currency board also ties the government’s hands as it can no longer finance budget deficits with direct loans from the central bank or sell government security issues to the central bank (Poirot 2003).
The BSP government and its prime minister, Zhan Videnov, resigned in December 1996. Mass demonstrations prevented the BSP from forming a new government for nearly two months and eventually the party agreed to an early election on April 19th, 1997. In the meantime, parliamentary struggles delayed tax reform and the inflation rate reached to 242 percent by February 1997. The IMF reopened negotiations with the caretaker government on the introduction of a currency board (EIU 1997b, 7) and signed a new SBA –worth SDR 479.5 million ($657 million)– in April.

Following the April 1997 elections and political stalemate due to challenged election results, a UDF-led government came to power with Ivan Kostov as its new prime minister (Campbell 1996, 54). The new government appointed the former finance minister of the interim government, Svetoslav Gavriiski, as the new central bank governor (EIU 1997c, 11). He was described as “an uncontroversial technocrat, having served as deputy minister under every government since 1990 and proved himself able to implement government policy faithfully” (EIU 1997c, 11). He was also a part of the debt negotiation teams between 1990-92 and a close colleague of Ivan Kostov during his career as the finance minister (1991-92).

The new government declared its commitment to the structural reforms, and managed to renegotiate some of the conditions attached to the SBA signed by the interim government in April (EIU 1997c, 17). On July 1st, the Currency Board Arrangement of Bulgaria was established in accordance with the Fund’s requirement. With this transition, the lev was pegged first to the Deutsche mark, then to the euro following its introduction in 2000. Following the announcement, even before the regime shift took effect, inflation started to fall, devaluation of the lev stalled, and confidence to the Bulgarian economy was restored (Poirot 2003). Since 1997, Bulgaria has experienced strong growth rates (almost 5% annually since 2000), stable but relatively high inflation rates (around 6% annually), and strong macroeconomic fundamentals (Crespo-Cuaresma, Fidrmuc & Silgoner 2005, 846-847).

Bulgaria started its accession negotiations with the EU in 2000, and joined the Union
in 2007. Bulgaria is currently not in the euro-zone, but lev is still pegged to the euro.

**Actors**

The typology on Table 5.3 categorizes the 1996 Bulgarian program as a case with relatively high institutional autonomy for econocrats, albeit those with non-conservative policy preferences. The BNB was established in 1879. In addition to its well-established institutional tradition, its legal independence score was 0.55 according to CWN index (Cukierman, Webb & Neyapti 1992). Compared to the 0.48 of the U.S. Federal Reserve, this score shows a high level of legal autonomy. On the other hand, having been a socialist country, its econocrats did not have much experience with the neoliberal system and did not share much common knowledge with their counterparts at the IFIs.

Governor of the BNB for 1996-97 period was Lyubomir Filipov. He completed his bachelor’s degree at Sofia University St. Kliment Ohridski with a major in math and computer science (BNB 2014a). According to his official biography, he did not study economics or business management and does not have an advanced degree. He started his career as a public servant in the data center of the State Planning Agency in 1967. In 1976, he entered the BNB as Advisor to the President. Between 1984 and 1989, he was a Board Member of the International Bank for Economic Cooperation (IBEC, a regional bank affiliated with the Comecon) in Moscow. In 1989 he returned to the BNB where he was appointed as the Director General of the Directorate-General for External Economic Relations. In 1994, he became the Deputy Governor and two years later the Governor. His appointment as the CBG was backed by the socialists in the parliament, but attracted criticism from the opposition. His opponents accused him of “being directly linked to the BSP” (Troev 1996, 2). Filipov was also described as “a caretaker and certainly less of a heavyweight” (EIU 1996b, 23). During his tenure, the BNB’s actions were mostly deemed ineffective against the hyperinflation and worsening conditions of the banking sector (Crespo-Cuaresma, Fidrmuc & Silgoner 2005). He was replaced by Svetoslav Gavriiiski when the UDF-led coalition came
to power in 1997. Since then he worked in private banking, specifically as a Board Member of the IBEC between 2004 and 2013. He currently works as a freelance finance and banking consultant.

Gavriiski, Filipov’s successor, graduated from Karl Marx Higher Economics Institute with specialization in foreign trade. From 1972 to 1977, he worked in the Ministry of Finance, and during the 1980s in the Ministry of Planning and the Treasury (BNB 2014b). In 1992, he was appointed as the Deputy Minister of Finance. Between February and May 1997, he was the Minister of Finance of the caretaker government. Before replacing Filipov in June, he played a key role in formulating the new Central Bank Law. He remained as the CBG until 2003. In short, compared to Filipov, Gavriiski may be described as an econocrat with at least some conservative policy understanding, hence more in tune with the IFIs’ way of thinking than Filipov was.

Minister of Finance in the Videnov government was Dimitar Kostov. He also graduated from the Karl Marx Higher Economic Institute in Sofia in 1981, and worked at the State Planning Committee and at the Ministry of Economy and Planning until 1989 (History, Ministers: Dimitar Kostov 2014). From 1990 to 1997, he was the Deputy Minister of Finance. In 1992, he completed postgraduate programs at the Princeton University and the Institute of Economics in Boulder, Colorado (Dimitar Kostov: Biography 2014). After the 1997 elections, he chose a career in banking and became the Executive Director of the Central Cooperative Bank. Since 2005, he is the Deputy Governor of the BNB in charge of the Banking Department. The current governor of the BNB, Ivan Iskrov, asked the parliament to extend Kostov’s 6 year term in 2011 and succeeded (SNA 2011).

These key econocrats made very few public statements, in which they mostly assured the IFIs and markets of Bulgaria’s commitment to the 1996 program. There were two occasions where warnings were made. In April 1996, the BNB Deputy Governor Mileti Mladenov “said that Bulgaria might not be able to service its debt in the absence of funds
from the multilaterals or the EU,” but he was corrected promptly by the Minister of Economic Development Rumen Gechev (EIU 1996b, 23). In November 1996, Finance Minister Kostov addressed the parliament and said that unless Bulgaria repays its foreign debts on time, it will be isolated by IFIs (Zhelyazkov 1996). He also made it clear that a currency board arrangement was necessary to solve the problem of hyperinflation. This statement coincided with the IMF officials’ campaign for a currency board in Bulgaria.

On the political front, the main actor was the prime minister Zhan Videnov. Videnov became the chairman of BSP, the successor of the Bulgarian Communist Party, in 1991. Under his leadership, BSP won the December 1994 elections and formed a coalition government with minor leftist allies (EIU 1996e). Videnov’s BSP also won the local elections in 1995, which demonstrated the government’s popularity. Following the mid-1996 downturn in macroeconomic fundamentals, he had no choice but to sign an agreement with the Fund. His party paid for this decision by losing the presidential elections.

Even though BSP officially demonstrated strong ownership of the IMF program, the relationship was a difficult one due to different factions within the party (Poirot 2003, 42). The intra-party tension coupled with the magnitude of necessary structural changes explain why some reforms such as mass privatization repeatedly got delayed.

In 1996, Bulgaria was entering a period of economic turmoil, and its government was not powerful enough to implement the IMF prescription. The bureaucracy, on the other hand, was not ideologically on the same page with the Fund officials despite its relatively high autonomy. According to Nenovsky (2003, 920), the BNB “was subordinated to the government de facto”:

> It was a public secret that sometimes the BNB (or some of its senior managers) participated in a coalition with the government, state-owned companies and some commercial banks in speculative operations related to exchange rate movement,
refinancing, and so on.

This shows that bureaucratic autonomy is a necessary condition, but not a sufficient one. Without conservative policy preferences, econocrats might collude with short-sighted, rent-seeking politicians just as easily. During the 1996 crisis, the BNB acted as a “lender of first resort,” bought toxic bank debts, and injected money into these banks. Filipov’s BNB also continued to intervene in the foreign exchange market by buying up foreign currency despite dangerously low foreign reserves and warnings from the IFIs (Minassian 1998). When it was no longer possible for the BNB to intervene in the foreign exchange market, it resorted to abruptly raising interest rates. By mid-1996 the BNB had declared five banks insolvent—namely The First Private Bank, Mineralbank, Agrobusinessbank, Private Agricultural and Investment Bank, and Kristalbank; later in September the BNB put nine more banks under special supervision (Minassian 1998, 340):

None of these financial and lending institutions was offered for privatisation or take-over by another national or foreign bank, and no mergers or acquisitions were attempted first. To top it all, the BNB appeared to use somewhat fuzzy criteria to assess the financial standing of the banks, and also, there were a number of indirect attacks, spearheaded not without the participation of powerful financial circles, some even close to the government. All this followed the scandalous collapse of quite a lot of financial pyramid schemes that had thrived under the BNB’s stance of passive contemplation.

IMF’s response to this obstacle was rather radical: by-passing the BNB and automating the monetary policy. Even though IMF is considered as an organization in favor of floating exchange rates, it recommended and even pushed for a currency board in Bulgaria by making it a condition for any kind of future agreement. IMF did not postpone the issue to the aftermath of the April 1997 elections. In January 1997, following consultations with the major political parties, Stefan Sofianski, UDF-affiliated mayor of Sofia and the head of the
interim government, signed a memorandum with the IMF on the formation of the currency board (EIU 1997d). This agreement guaranteed the introduction of the currency board no matter who won the elections or who replaced Filipov. That is because whoever succeeded Filipov would still be an econocrat trained under a socialist regime.

As would be expected, the BNB initially objected to the idea of a currency board, which practically strips the central bank off of any real monetary responsibility. Minassian (2002, 52) describes a currency board as “a strait jacket for the politicians and bankers.” In order to overcome these objections, the IMF relied on a group of allies in domestic politics (Nenovsky & Rizopoulos 2003, 926):

The first thing IMF did was to establish a close network of selected politicians, members of the government, the BNB, other senior officials, representatives of private and non-government organizations, and so on who had to adopt the idea of currency board introduction and start propagating it so that public expectations converged to the new monetary regime. The initial group for internal pressure was very small, formed by some of the members of the Bulgarian National Bank Managing Board and the government. Being fully aware that the public would accept more easily a radical monetary regime change if the crisis and the suffering ran deeper (Krueger 2000), the IMF suggested measures that would make the crisis visible so that economic agents gained clear awareness of it.

This quote shows that some believe IMF used the 1996 crisis as a window of opportunity for institutional change. As evidence, Nenovsky (2003, 926) argues that the new central bank law was originally written in English by IMF officials and then translated into Bulgarian.

The search for a currency board chief proved to be a difficult task as some candidates declined the offer and some turned out to be ineligible because of the amendments to the
banking law that prohibited board members of insolvent banks to be appointed to senior financial posts (EIU 1997c, 11). At long last, the 35-year old deputy trade minister of the caretaker government, Martin Zaimov, became the first deputy governor of the BNB responsible for the currency board. Despite his limited banking experience, Zaimov had a degree in macroeconomics from the London School of Economics and an international professional background in accountancy (Who is Martin Zaimov? 2007).

In sum, the Fund installed a mechanism in Bulgaria that takes the issue of preferences out of the equation. The currency board also let the IMF become a more constant part of the economic decision-making because of the liquidity risks this system poses (Poirot 2003). In fact, Bulgaria went on to sign four more agreements with the Fund after 1996. Except the last program in 2004 which was precautionary, Bulgaria received all of the disbursements for each of the programs, meaning the country complied with the attached conditions.

**Evaluation**

The case of Bulgaria reminds us that institutions are easier to change compared to ideas. When a country lacks autonomous implementing agencies, as in the case of Pakistan, there is still room for the kind of reform agenda IMF supports if and when a powerful econocrat seizes the policy space. On the other hand, when the lacking piece is the conservative neoliberal preferences, there is no domestic actor to empower or ally with. This becomes such an issue that IMF advises for solutions that are deemed radical for its philosophy as evidenced by the formation of the currency authority in Bulgaria.

From the Fund’s point of view, the economic crisis in 1997 was the result of “a delayed transition strategy between 1990 and 1992” (Poirot 2003, 30). Bulgarian governments chose a slow pace of privatization and continued financing of the state-owned enterprises through government debt, which they monetized through the BNB. The BNB, despite its legal independence, was insistent on implementing expansionary policies. Thus, the solution
was a change in monetary regime that would make monetary expansion and accumulation of domestic debt impossible. IMF imposed such a change by establishing an inherently conservative and automatic system that requires no direct input from Bulgarian econocrats.

This new system also made constant IMF surveillance necessary. A currency board makes current account adjustment more difficult, therefore countries with fixed exchange rate regime need the Fund as a guarantee against liquidity crises. Minassian (2002, 56) argues that this constant linkage helped increase local economists’ competence and improved the quality of research in the country. The currency board, then, was not only an instrument for rapid transition, but also a long-term commitment for technical training and socialization.

From the Bulgarian perspective, the currency board meant a heavy loss of power for the government. The new system “restricted government’s ability to redistribute wealth” in exchange for stability (Nenovsky & Rizopoulos 2003, 919). Bulgarian government agreed to this kind of permanent transfer of power only because of the 1997 financial crisis. As of mid-1998, the currency board kept its promise of lower inflation levels, and even contributed to the improvement in the banking system. In addition, Bulgaria achieved to obtain a three-year EFF of $864 million in September 1998. The Fund agreed on a slower pace of adjustment especially in agricultural and fuel-price liberalization, and allowed a higher minimum income growth than rumored (EIU 1998b, 15). In short, once the IMF guaranteed a conservative, autonomous mechanism of implementation, it started to ask for more flexible conditions. Under these circumstances, Bulgarian politicians have had no reason to reverse the currency board arrangement.
Zambia 1986

Program

The fourth category of the preferences-institutions typology consists of countries that lack both conservative econocrats and independent agencies. The pool of country-programs for this category was limited because of IMF’s promotion of independent central banks and the growing trend of obtaining advanced degrees among econocrats. Out of 302 programs, only 21 observations fit in this sub-sample. Zambia’s 1986 SBA is one of them.

From its independence in 1964 until the 1991 elections, Zambia had been a single-party system which adopted state socialism as its economic approach (Good 1988). The country was ruled by President Kenneth Kaunda for 25 years. Kaunda was described as “an all-powerful figure who appoints all key officials of both government and party from the national to the regional levels” (Good 1988, 37). It is suggested that a dozen ministers of finance and nine central bank governors who held office under Kaunda were not appointed on merit, but simply on their connection to the president (Good 1988, 38). This kind of presidential dominance prevents institutionalization in state capacity and results in “manifest managerial inefficiencies, weaknesses in foresight and planning at government policy and business firm levels, and abrupt and haphazard changes in government policy” (Wulf 1988, 580). Such incompetence in bureaucracy leads to a tendency towards widespread and normalized corruption.

Zambia had a copper-based mono-economy. Copper accounted for 90 percent of the export earnings until 1990s. This over-reliance on a single mineral export made Zambia vulnerable to price fluctuations in the international markets and the issue of remaining reserves. In addition, manufacturing and mining sectors depended heavily on imports (Makgetla 1986). This combination paved the way for heavy foreign borrowing especially after the oil shocks.

To sign the 1984 SBA, Zambian government agreed to put an end to the fixed price system, liberalize international trade and cut government spending (Makgetla 1986, 396). Compared to earlier arrangements, this one included more extensive policy reforms in order to establish a more efficient economic system. Other goals of the program included “limits on external government borrowing on commercial terms; the reduction of government budget deficit and expenditure growth and the introduction of new tax measures” as well as “limits on the increase of internal government and non-government borrowing, and the increase in the money supply” (Wulf 1988, 584).

In order to implement these reforms, the government prepared a comprehensive package of economic adjustment policies, whose centerpiece was the foreign exchange auction system. Foreign exchange auction system is a system of limited convertibility, which was first adopted in Uganda (Holman 1985). It entails weekly auctions in which a limited amount of foreign exchange is sold on free market to the highest bidders. In this model, government may be allowed to maintain a second, artificially lower, foreign exchange rate for essential imports. This system “was aimed at streamlining the allocation of foreign exchange and in particular eliminating the import licensing system” (Simutanyi 1996, 826). In addition, liberalization of agricultural markets and a reduction in the number of public servants were among the goals of the government program.

In July 1984, Zambia signed an agreement with the Fund and its foreign debt was rescheduled. By March 1985, however, Zambia had drawn SDR 80 million of the SDR 225 million facility. Further installments were delayed due to disagreement over measures
to tame the overvalued kwacha. Suspension of the 1984 program led to a serious liquidity problem for Zambia. Being a land-locked country, Zambia depended heavily on its neighbors for raw materials and agricultural produce. For years, instead of diversifying the economic system, President Kaunda used funds from copper exports and foreign loans to subsidize essential food products like mealy meal, keep prices artificially low, and support farmers. When price of copper crashed, Kaunda did not invest in improving infant industries or increasing agricultural production, but continued to depend on imports and subsidizing consumer prices. Hence, Zambia was in constant need for foreign exchange. In 1985, this need became so dire that the country could not import spare parts for machines, wheat for bread or fuel for tractors. As one Zambian official stated, the government “[had] no way but the IMF way” (Waldmeir 1985, 6).

Under these circumstances, in October 1985, IMF agreed to offer a new SBA on the condition that the Bank of Zambia (BOZ) would immediately start holding foreign exchange auctions. On October 11, 1985, the BOZ auctioned $6.5 million. Winning bidders paid 5 kwachas for 1 dollar, which translates into a 50 percent devaluation. In addition, IMF insisted on other prior actions to be fulfilled before approving the new SBA, including repayment of the SDR 115 million in arrears.

Following Zambia’s payment, a new stand-by agreement was signed on February 21, 1986. Zambia would receive SDR 340.3 million as part of this agreement. The program was an ambitious one, which required Zambian government to stop issuing import licenses, remove the ceiling on interest rates and abolish the food subsidies. Yet, the government could not even match the 0.35 implementation ratio of the 1984 program this time. The disbursed amount of loans remained at the 0.15 level and the program went off track in May 1987.

By November 1986, one year after the auction system was introduced, kwacha had sunk to a record low (14.68 kwachas for 1 dollar). For a country like Zambia, this meant
costs of imports, especially fuel, quadrupled which led to soaring transportation prices and declining purchasing power for the general public. When subsidies on the basic traditional Zambian food, corn meal, were revoked and food prices increased as a result, youth riots erupted all over the country (Simutanyi 1996, 827). Kaunda’s government had to impose curfews, reintroduce the subsidy and nationalize all maize milling companies in order to establish peace and security.

By this time, second tranche of the 1986 loan was suspended and Zambia had to pay $90 million in arrears before the funds were released (Mallett 1986c). In March 1987, negotiations restarted mostly due to the regional conjecture, as one diplomat stated: “In any other situation like this, the IMF would have stopped negotiating. But maintaining stability in Zambia is crucial in a region where instability is endemic.” (Vallely 1987).

Although Zambia signed an SBA in 1986 with very ambitious goals, the government found ways to circumvent the IMF-imposed reforms. For example, in October 1986 when the amount of foreign exchange auctioned off reached to $9 million a week, the government put in place new rules of identification for bidders to slow down the demand for foreign exchange. To discourage the bidders, government also published their names. In addition, the Zambian government switched to the Dutch system of auctioning that creates multiple exchange rates. Winning bidders also had to wait 3-4 weeks before settlement. Michael Mwape, Kaunda’s kin and the general manager of BOZ at the time blamed donors for the slowdown in the auction system. (Mallett 1986a). All these extra measures point to partial implementation of the foreign exchange auction system, a crucial part of the 1986 SBA.

BOZ resumed the weekly foreign exchange auctions on March 19th, 1987. This trial too, however, collapsed. On May 1st, 1987, the Zambian government abandoned the IMF program because of growing internal tensions. Kaunda announced reversal of the IMF-sponsored reforms. Zambia limited debt service to a maximum of 10 percent of export revenues (Wulf 1988, 581). That means Zambia would pay only $50 million of its $500
million debt obligation annually (Hawkins 1987).

After Zambia broke off relations with the IMF, Kaunda replaced the IMF program with the Interim New Economic Recovery Program (INERP), which re-imposed the price and foreign exchange controls. Kaunda described the suspended IMF program as a source of “pain, malnutrition and death” for the people of Zambia (Simutanyi 1996, 827). By the end of 1986, Zambia’s external debt had reached to $5.8 billion (Wulf 1988, 581).

The subsequent economic crisis made Zambian government seek IMF assistance once more in 1989. In order to be qualified for an agreement, President Kaunda had to introduce a program similar to the one backed by the 1986 SBA (Moore & Scarritt 1990, 43). However, repeating the previous episode, elimination of price controls led to increase in food prices and riots. 23 people were killed during the anti-government protests and a coup was attempted unsuccessfully against Kaunda’s rule (Bradshaw & Huang 1991, 321).

In June 1991, Kaunda’s government, having agreed to hold elections in that year, asked IMF for postponement of “a scheduled round of reduction of maize meal subsidies” (Simutanyi 1996, 828). The Fund, however, refused and suspended all its disbursements to Zambia. The government resorted to increasing the money supply to pay wages and to finance the electoral campaign. As a result, annual inflation reached to 129 percent.


**Actors**

Kenneth Kaunda, born in 1924 in Nyasaland (now Malawi), was trained as a teacher.
He was the opposition leader in Northern Rhodesia (now Zambia) between 1949 and 1964 (Johnson 1992). He founded the UNIP in 1960 and led the independence movement against Britain.

Compared to other African leaders, Kaunda had a good reputation. He owed this to his emotional, open public persona as well as to his ability to bring together 73 ethnic groups in a relatively stable country. His international role as a mediator to end civil wars and his support for independence movements in Zimbabwe and Namibia also contributed to this positive image (Harden 1985). He was elected chairman of the Organization of African Unity twice (Harden 1988).

The backdrop of the Zambian-IMF relations in the 1980s is the Cold War. Even though President Kaunda distrusted the Soviet Union and did not believe in Marxism, he still claimed Zambia to be a socialist country (Worthington 1987). He called his brand of socialism, “humanism,” described as “a hybrid of socialism, Christianity, African values, pragmatism, opportunism, necessity, and [...] “conveniencism”” (Worthington 1987). In practice, Zambia had a big and inefficient bureaucracy, nationalized companies including the Zambia Consolidated Copper Mines Limited (ZCCM), and a system that outlawed any political party other than UNIP. That means ideology had a role to play in this story.

For example, Kaunda’s opponents in the government accused him of moving away from socialism by asking IMF for loans. One MP called the government “a ministry within IMF” (Mallett 1986b). A central committee member told a Soviet Communist Party delegation that the IMF, a tool of imperialism, was hindering Zambia’s development by intentionally giving bad advice (Mallett 1986b).

This setting shows us that although Kaunda was the sole authority of Zambia, he was under pressure from the intra-party opposition. Zambia’s agreements with the Fund were

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121 Kaunda was also a fervent opponent of the apartheid regime in South Africa and supported the anti-apartheid sanctions. ANC established its headquarters in Zambia, which caused constant tension between the land-locked Zambia and its most convenient trade partner, South Africa.
ideologically indefensible for a socialist leader. Signing these agreements and the subsequent reforms were only possible because of Kaunda’s reputation and authority. Why would he put his reputation on the line? The narrative points out two reasons: first, IMF presented a road map for reform that Zambia lacked otherwise, and second, economically speaking Zambia was in the worst possible situation.

For the first point, we have evidence that neither Kaunda himself nor his bureaucracy was equipped for the extensive economic reforms Zambia needed. Before his political career, Kaunda was a scoutmaster (Harden 1988). The Economist claimed that he “has never known the first thing about economics” (Zambia’s failure 1987). Another article mentioned a western diplomat saying that “he has no understanding of economics and economics is the future of his country” (Harden 1988). In addition to doubts about Kaunda’s competence in economic policy-making, his habit of shuffling ministers and top-level bureaucrats made it difficult for Zambia to develop a long-term reform program. Kaunda has used this strategy of frequent reshuffling of government posts to prevent any actor from gaining too much power and becoming a rival to himself. This habit, however, also impeded implementation of consistent economic policies by experts. That is why an agreement with IMF provided a much needed road map for Zambia.

In addition to the need for a concrete reform plan, the extent of Zambia’s economic problems made Kaunda seek agreement with the Fund. Until the 1980s, Kaunda had used money from copper exports to subsidize agriculture and provide high living standards for civil servants and the members of the army. Even when copper lost its status in international markets, Zambian governments continued with the same spending habits using borrowed money. In 1983, Zambia’s borrowing from the Fund was equal to 235 percent of its quota (Zambia trying to shed cloud with copper lining 1985). Most of the time, Zambia was so much in arrears with its debt that the incoming loan installment was less than the amount the government had to pay in a few months. In 1986, growth rate of Zambia was 0.5 percent,
accompanied by an inflation rate of 60 percent (Mallett 1986c). As most of the Zambian economic activity depended on imports for raw materials and interim goods, scarcity of foreign exchange meant closing down of the factories and even the cooper production. Zambia was so much in arrears with its debt that borrowing from private donors was not a conceivable option anymore. In short, Kaunda was forced to borrow from the Fund by the approaching economic catastrophe.

From April 1985 to May 1987, Kaunda changed his economic team three times. Just two months after the signing of the stand-by agreement in 1986, Kaunda fired the econocrats who prepared and negotiated the agreement. These econocrats, Finance Minister Luke Mwananshiku, Bank of Zambia Governor David Phiri and economic advisor to the president Dominic Mulaisho, were removed in order to contain the backlash against the new program and appease Kaunda’s opponents within the UNIP.

Luke Mwananshiku was an economist who received his BA at the University of Salisbury in 1964. He began his career at the Ministry of Finance and promoted to permanent secretary of the ministry in 1973. In 1975, Mwananshiku was appointed as the Minister of Finance, and in 1976 the Governor of Bank of Zambia. He was dismissed in 1981 “because of his outspoken criticism of government policy” (Mailafia 1997, 158). He was reappointed as the Minister of Finance in 1983 and deemed as one of the architects of the 1986 IMF agreement. He did not have the chance to implement the agreement that he negotiated with the Fund. He was appointed as Minister of Foreign Affairs by Kaunda in April 1986 (Luke J. Mwananshiku 2001). Before Kaunda lost the 1991 elections, Mwananshiku resigned. He worked as the Executive Director of the IMF from 1992 to 1996 and later at the ZCCM until its privatization in 1998.

David Abel Ray Phiri, born in 1937, graduated from the Bristol and Oxford Universities with degrees in Social Services and Social Anthropology (Tribute to David Abel Phiri 2012). He worked for an Anglo-American corporation’s Zambia office for 10 years
beginning in 1964. In 1974, Phiri was appointed Managing Director of the Roan Consolidated Copper Mines and later Zambia’s envoy to Sweden in 1982. Kaunda appointed him as the central bank governor in 1984. After his removal from that position in 1986, he took up other government positions including Head of Prices and Incomes Commission and the Chairperson of the University of Zambia Council.

Bates and Collier (1995, 140) argue that the IFIs targeted the presidency and these two econocrats as their counterparts and they either “did not recognize the significance of the Party or felt it inappropriate to approach its officials.” According to Maliafia (1997, 161), Mwananshiku, Phiri, and Mulaisho thought similarly:

A policy coalition had emerged that was sympathetic to a more technocratic approach to the reform effort. With collaboration of Fund and Bank staff, a series of technical studies was undertaken for a new reform programme.

This coalition was able to communicate with the Fund officials, and support the 1986 program as long as Kaunda ensured its implementation. By April 1986, Kaunda could no longer maintain his backing against the rapidly declining value of the kwacha. Under pressure from the Party, he appointed B.R. Kabwe as MOF and L.S. Chivuno as CBG. Kabwe was said to lack “direct experience of the highly technical issues handled by the Finance Ministry” (Waldmeir 1986). Chivuno, on the other hand, was a Moscow-trained economist, nicknamed “Red Len” (Mallett 1987). Politically-charged replacement of the technocrats with these figures caused further decay in confidence in the 1986 program (Maliafia 1997, 162):

Leonard Chivuno became Central Bank Governor while Basil Kabwe, a one-time Education Minister and trade unionist was made Finance Minister. Both were known to be proteges of UNIP Secretary-General Grey Zulu, himself a quintessential representative of the old guard. The third man, James Mapoma, was brought to State House as Economics Adviser after years of experience in
the mining sector. The new appointees were widely known to be uncommitted to the auction system, a point which underlined the increasingly widespread lack of confidence in the economy itself, and the speculative effect which this had on prices and economic activities in general.

Chivuno is described as “a young and ideological Soviet-trained engineer” who became the head of the National Commission for Development Planning (NCDP) in 1980 (Callaghy 1990, 290). He argued for an expansionary economic program against Mwanashiku, the CBG at the time. His policy advice supported by the “old guard” was the reason for the financial chaos that followed. Mwananshiku had publicly criticized Chivuno’s position at a press conference and was dismissed as a result (Callaghy 1990, 290). When Kaunda appointed Chivuno as CBG, he also became the key player in economic decision-making because of his stronger background compared to the new MOF, Basil Kabwe (Callaghy 1990, 294). Therefore, in a sense, Kaunda did not only make changes in government as usual, he also appointed someone who represented the polar opposite of Mwananshiku.

While in office, Chivuno contributed to the partial implementation of the 1986 program. Based on his interview data, Callagy (1990, 294) argued that Chivuno manipulated the auction system by increasing the amount that could be bid for significantly, creating a “payments pipeline.” By November 1986, successful bidders for approximately $40 million had to wait ten weeks for their foreign exchange. This delay led to growing distrust towards the system and fed the already growing opposition against the program. As a result, Chivuno was the only BOZ governor who was not employed by either the IMF or the World Bank after his resignation in 1987 (Zambia: We Are Headed for Calvary 2004).122

In May 1987, Kaunda fired his finance minister and the entire senior staff of the BOZ except Chivuno. Gibson Chigaga, “a lawyer who was Attorney General and has no

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122Chivuno was also accused of being responsible for the disappearance of $100 million and the Bank of Zambia’s records for the 1987-88 period. The irregularities were noted in the IMF reports. For further information, see Gray and McPherson (2001, 723).
experience of finance,” was appointed as the new minister (Mallett 1987). Deputy Governor of the central bank K. M. Lamaswala and general manager Michael Mwape together with 11 other senior central bankers were replaced because of their alleged involvement in a scandal.

To conclude, the central figure of the 1986 SBA of Zambia was Kenneth Kaunda, who had no other choice but make a deal with the IMF – a deal with high conditionality that he partially implemented whenever possible. Econocrats like Mwananshiku or Phiri were hardly influential during or after the negotiations with the Fund. Most news articles of this period omitted their names, probably because of Kaunda’s overwhelming influence on policy-making.

In the jargon used for Chapter 3, Kaunda used econocrats at the negotiation stage and switched to partisans at the implementation stage. Even though Mwananshiku and Phiri were not typical conservative econocrats considering their ideological predisposition and lack of advanced educational background in neoliberal economics, their successors were even less prepared to formulate policies in compliance with the terms of the 1986 agreement. Autonomy, of course, was not attainable for the Zambian bureaucratic agencies under the single-party regime. President Kaunda was the sole benefactor of the economic reforms in Zambia. Yet, he too was constrained by social reactions to reforms and the party politics. In the end, he retracted the already weak protection he gave to the technocratic core; but could not help becoming isolated himself against the growing opposition (Callaghy 1990, 293).

**Evaluation**

The cases of Bolivia and Pakistan showed that conservative econocrats, independent of their level of autonomy, are able to speak the same language with their international counterparts. They are better at explaining the economic hardships of their countries to the IFIs,
and are also more skillful in convincing them for a “discount” either in the form of waivers or flexible conditions. Zambian case tells a similar story, but from the opposite angle. Except a handful of people, or more precisely two people, Zambian bureaucracy could offer no counterparts in negotiations with the IMF. In fact, “the content of the Zambian reform packages has largely originated from IFIs with limited original Zambian input” (Bigsten 2001, 147). The Zambian economic team was so weak that “the IMF and the World Bank conducted necessary studies and analysis, established the framework, and guided the negotiations” (Callaghy 1990, 292). One Zambian official described the effect saying that “the IMF and the World Bank have become the Ministry of Finance in Zambia” (O’Neill 1987, 66). On the other hand, the officials of these two organizations admitted that they did not understand the inner workings of the Zambian politics and economic policy-making (Callaghy 1990, 299).

Dismissal of Mwananshiku and Phiri by the implementation period and their lack of voice in the public sphere contributed to the failure of explaining the reforms to the public. Most Zambians did not understand the reforms, the auction system in particular (Callaghy 1990, 293). Combined with the already growing opposition against Kaunda and the ideological aversion against the IFIs, this ignorance helped frame the economic crisis as an externally-induced, cyclical and temporary issue (Moore & Scarritt 1990, 43). In this atmosphere, the opposition to adjustment became a focal point for all the groups against the authoritarian one-party state regime (Simutanyi 1996, 825). Interestingly, this view was fostered by the government which “constantly emphasized that the conditions had been imposed by the IMF, and had been accepted only very reluctantly by the Zambian leadership, undermining whatever confidence the people may have had in the reforms” (Moore & Scarritt 1990, 43).

The case of Zambia then indicates another point: conservative econocrats may be better at cultivating program ownership. Conservative econocrats may become channels
of communication between the international organizations and the general public. Unlike politicians, conservative econocrats have nothing to gain from accusing the IFIs. Unlike the IFIs, they know the political soil in their country and how to till it. Hence, in countries with conservative econocrats, program ownership may be stronger because the public comprehends the reform agenda better.

In Zambia, the 1986 program was nominally implemented by non-conservative econocrats who were at the mercy of Kaunda alone in terms of their careers. At times, partial implementation reached to the level of Zambian government working against its “own” reforms. In fact, those reforms were not Zambia’s own production. More than any other case, the adjustment program was prepared and imposed by the IMF because there were no cadres competent enough to consult and bargain with. The two exceptions, Mwananshiku and Phiri, were sacked when the implementation stage arrived. Callaghy points out that the same conditions worked in Ghana and Nigeria, but not in Zambia due to political manipulation (Callaghy 1990, 295). Quite simply put, “Zambian program failed because it was implemented badly” (Zambia’s failure 1987).

The 1986 program lived and died with President Kaunda’s will. He was the one who “secured the adoption of the reform program,” and abandoned it later under electoral pressure (Bates & Collier 1993, 408). The IMF-sponsored reforms led to income redistribution which paved the way for adverse reactions from both the party and Zambian people. As a result, Kaunda shifted back to the party line in economic policy-making. Without conservative econocrats in office, IMF could neither cultivate widespread program ownership in Zambia nor initiate long-lasting policy changes.
5.2 Elite Interviews with Turkish Econocrats

The four case studies helped us gain a firm foothold on how preferences and institutions matter in relation to compliance with the IMF conditions. A closer look into another case will establish this link further. Following the purposive selection literature, I chose Turkey because of its high-level of accessibility.

Turkish-IMF relations consist of 19 programs, first of which was signed in 1961. The 1980-83 SBA was a turning point for Turkey as it marked the introduction of neoliberal policies such as convertibility, liberalization of interest rates and privatization of state-owned enterprises. 1994 and 2001 mark the two major crises in recent history, for which Turkey had to invite the Fund officials. The 1994 agreement was suspended, while the 1999-2002 stand-by was concluded successfully. This SBA also included structural conditions such as granting legal independence to the Central Bank of Turkey (CBT) and establishment of an autonomous banking regulation agency. Turkey concluded its 19th SBA in May 2008. After paying its remaining debt to IMF in 2010, Turkey is currently one of the ‘successful’ graduates of the Bretton Woods system. Its long and controversial history with the Fund, however, is still fresh in the minds of both politicians and econocrats.123

Similar to the other four cases, Turkey is an experienced borrower with a mixed record of compliance with IMF conditions. What would be the added value of an in-depth analysis using interview data then? This kind of ‘thick’ investigation provides us an insight into econocrats’ way of thinking: how they make policy decisions, how they convince the Fund or the politicians of the value of their own preferences for certain policies, how they walk the tight rope between their formal and informal principals, what kind of strategies they use, whether or not they misrepresent the economic conditions to receive preferential

123For a detailed analysis of the 2001 crisis, see Cizre and Yeldan (2005), Miller (2006), and Onis (2006, 2009).
treatment or justify the policy reforms they are advocating for (Gerring & McDermott 2007). Interviewing elites is an approach “best-suited for establishing the importance of agency or ideational factors” (Rathbun 2008, 690). Making generalizations by using the interview data is possible “when influence over the outcome of interest was restricted to a few select decision-makers” (Rathbun 2008, 690). Considering what we know so far on econocrats’ role in implementation and the emphasis of this study on establishing motivations and preferences, elite interviews with Turkish econocrats appear to be the right way to piece together the story of compliance with international agreements.

Literature on elite interviewing is based on seminal works by Robert K. Merton (1956), Lewis A. Dexter (1970), Richard F. Fenno, Jr. (1978) and Aaron Wildavsky (1989). These studies determined the guidelines for and pitfalls of interview techniques.

To begin with, there is the question of finding respondents. Elites might be “loosely defined as (...) those with close proximity to power’ (Lilleker, 2003, p. 207) or with particular expertise (Burnham et al., 2004)” (Morris 2009, 209). Following Aberbach, Putnam and Rockman (1981), the survey population of bureaucrats in this study are those who directed departments, divisions, or bureaus in ministries related to economic policy-making in Ankara, capital of Turkey; “and occupied positions roughly one to two rungs below the minister” (Rivera, Kozyreva & Sarovskii 2002, 684). Institutions with bureaucrats who fit this description in Turkey and are in contact with the IFIs are those in the Central Bank of Turkey, Ministry of Finance and the Secretariat of Treasury.124 I made a list of top career positions in each institution for the last ten years. I have constructed a pool of 20 econocrats, both active and recently retired, from these three institutions. One criterion for selection into this pool was the length of career in that particular agency in order to guarantee experience with at least the last of Turkey’s IMF agreements.125 From this pool, 10 agreed

124 The State Planning Agency (SPA) had gone through reorganization in 2010-2011 and become the Ministry of Development. Many of the bureaucrats at SPA resigned or experienced change in their positions. As a result, it was not feasible to contact econocrats of this agency for interviews.

125 The limited number of potential interviewees made it impossible to randomly select the subjects. All
to participate in the study. Two additional respondents are added through the snowballing effect.

I interviewed 12 top- and mid-level econocrats in July-August 2010 in Ankara and Istanbul. Using quota sampling, four respondents participated from each of the three agencies (Tansey 2007). These interviews were semi-structured as this technique “allows more opportunity for probing and gives the respondent considerable freedom to expand on a given question” (Huit & Peabody 1969, 28-29). Because my primary purpose was to learn what econocrats think of the IMF agreements and their relative role vis-a-vis politicians, the conversational style of the semi-structured interviews proved to be useful and appropriate (Aberbach & Rockman 2002).

Table 5.5 shows the breakdown of the interviewee list in terms of age, education, time spent in civil service, whether active or retired, and if retired, current employment status. This information came from the background work on every respondent as well as from their answers to the personal and biographical questions at the beginning of the interviews – a recommended section to “relax respondents and involve them in the interview” (Hunt, Crane & Wahlke 1964, 68).

As Berry (2002) suggests, subjecting respondents to a common interview protocol is one of the key principles of elite interviewing. The interview protocol for this study is in the Appendix D. None of the respondents refused to be tape-recorded, especially under the guarantee of anonymity. During the interviews, order of the questions changed in

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126 This research was reviewed and approved by the University Of Illinois, Urbana-Champaign Institutional Review Board (IRB) on August 5th, 2010 under the IRB Protocol Number 10743. Certification of approval is available upon request.

127 To protect subjects’ anonymity, I refer to them by their code names. Each code name includes a number and the institution of the econocrat: CB for the central bank, T for the treasury, and M for the ministry of finance.

128 The original protocol is in Turkish as the interviews were conducted in econocrats’ native language.
<table>
<thead>
<tr>
<th>Subjects</th>
<th>Age</th>
<th>Education</th>
<th>Time in service</th>
<th>Active or Retired</th>
<th>Current position</th>
</tr>
</thead>
<tbody>
<tr>
<td>CB1</td>
<td>62</td>
<td>Economics - Ph.D.</td>
<td>12</td>
<td>Retired</td>
<td>Private sector</td>
</tr>
<tr>
<td>CB2</td>
<td>55</td>
<td>Economics - Ph.D.</td>
<td>10</td>
<td>Retired</td>
<td>Private sector</td>
</tr>
<tr>
<td>CB3</td>
<td>53</td>
<td>Economics - Ph.D.</td>
<td>25</td>
<td>Retired</td>
<td>Academic</td>
</tr>
<tr>
<td>CB4</td>
<td>41</td>
<td>Economics - Ph.D.</td>
<td>19</td>
<td>Active</td>
<td>CBT</td>
</tr>
<tr>
<td>T1</td>
<td>54</td>
<td>Economics - MA</td>
<td>26</td>
<td>Retired</td>
<td>Private sector</td>
</tr>
<tr>
<td>T2</td>
<td>42</td>
<td>Economics - Ph.D.</td>
<td>17</td>
<td>Active</td>
<td>Treasury</td>
</tr>
<tr>
<td>T3</td>
<td>45</td>
<td>Economics - MA</td>
<td>22</td>
<td>Active</td>
<td>Treasury</td>
</tr>
<tr>
<td>T4</td>
<td>53</td>
<td>Economics - MA</td>
<td>32</td>
<td>Active</td>
<td>Treasury</td>
</tr>
<tr>
<td>M1</td>
<td>45</td>
<td>Economics - Ph.D.</td>
<td>23</td>
<td>Active</td>
<td>MOF</td>
</tr>
<tr>
<td>M2</td>
<td>48</td>
<td>Economics - MA</td>
<td>28</td>
<td>Active</td>
<td>MOF</td>
</tr>
<tr>
<td>M3</td>
<td>56</td>
<td>Economics - Ph.D.</td>
<td>13</td>
<td>Retired</td>
<td>Politician</td>
</tr>
<tr>
<td>M4</td>
<td>59</td>
<td>Economics</td>
<td>36</td>
<td>Active</td>
<td>MOF</td>
</tr>
</tbody>
</table>

Table 5.5: List of Interview Subjects

ac accordance with the respondent’s lead. Most of the time, though, the interview started with questions about interviewee’s evaluation of the recent economic history and his or her ideal monetary/fiscal/macroeconomic policy position. Once a rapport was established between the interviewer and the subjects, questions about their relations with politicians and the Fund officials were asked.

Possible problems with this kind of interviewing template are twofold: generally the issue of strategic reconstruction of events by respondents, and particular to this case, bureaucrats’ fear of seeming unpatriotic. The first pitfall is integral to any piece of data-gathering that is based on an individual’s views on past events. Human subjects can reframe those events to their own favor (Kramer 1990, King, Keohane & Verba 1994, Rathbun 2008). Even though lying might be a serious problem, in this case the purpose of these interviews is not to learn about specific historical events, but rather a certain way of thinking. We already know which conditions Turkey complied with and which programs went off track. Therefore, I have asked questions about econocrat’s experiences of negotiating with the Fund and implementing reforms. Another useful method was centering my conclusions “on general

\footnote{Berry (2002, 681) reminds us that “subjects have a purpose in the interview too: they have something they want to say.”}
tendencies in the interview material, based on multiple interviews” (Tallberg 2008, 688). The excerpts used below are the ones exemplifying these general tendencies.

The second issue is that the undercurrent of some questions made some respondents compare their government and the IMF in terms of policy advice and direction. With such a comparison that puts them in alliance with foreign representatives of an international organization came the need to emphasize their patriotic feelings. Expecting this reaction, I have changed the wording of those questions about decision-making under the IMF supervision.

5.2.1 A Brief Account of Economic Policy-making in Turkey

The econocrats who participated in this study mostly made references to three periods of Turkish economic history: early 1980s when Turgut Özal introduced neoliberal economic reforms, turbulent 1990s which produced coalition governments and a financial crisis in 1994, and the 1999-2002 period of major economic downturn and following structural reforms. I will provide a brief background on these eras to increase accessibility to this case, and a timeline of events for the 1999-2002.

Before 1960s, Turkey had a labor-intensive economy that was heavily dependent on agriculture and state-led development. In the aftermath of the Second World War, as part of the Western bloc, Turkey joined the IMF and the World Bank in 1947 (Boratav 2003). In the 1960s, import-substitution-industrialization (ISI) has become the organizing principle of the Turkish economy under the newly-established State Planning Agency’s (SPA) supervision. Until 1980s, SPA prepared four 5-year Economic Development Programs, all of which emphasized long-term goals, reforms to achieve development through protection of national infant industries (Krueger & Aktan 1992, 16). Similar to other examples, though,
ISI strategy hurt Turkish producers’ competitiveness, increased demand for the importation of intermediate goods, and caused higher levels of current account deficit which was financed through domestic and foreign borrowing. Following the 1973-74 Oil Crises, Turkish economy was in deep trouble: $13.8 million foreign debt, low foreign reserves, high inflation, distortion of prices due to state-owned enterprises, and very high trade deficit (Kazgan 2008, 189).

On January 24, 1980, Undersecretary to the Prime Minister Turgut Özal announced a new economic reform package including trade liberalization, privatization, liberalization of interest rates and commodity prices. This date marks the end of the ISI strategy and the beginning of an era of free market economy. The program, which continued without interruption under the authority of the September 12, 1980 coup, led to the successful completion of the 1980 standby agreement, reshaped bureaucratic organizations (e.g. break off of the Treasury from the Ministry of Finance), and introduced basic neoliberal practices such as convertibility. These fundamental changes, mostly undertaken between 1984 and 1987, were criticized for their fast pace and incompatibility with the economic infrastructure (Yeldan 1992, 39). For example, reforms of 1980s did not go so far as to include central bank independence, hence in the 1990s the Bank has become an instrument of financing public debt.

After completing two SBAs, Turkey did not need IMF loans between 1984 and 1994. Following the April 5th, 1994 crisis Turkey called for IMF assistance once again, but this program was suspended after one year due to partial implementation. The politically and economically turbulent era of the 1990s ended with a new SBA in 1999. Appendix D presents a timeline of major events until the 2001 crisis.
5.2.2 Findings of Elite Interviews

The interviews put forward a number of common themes. The first one is the process of policy- or reform-making. According to the interviewees, there are two paths to policy choice: through political initiative or through bureaucratic guidance. They are quick to remind us that even though bureaucrats sometimes formulate policy, it is the political mechanism that has the final word. Yet, some also note that it is quite rare for political actors exclusively initiating economic reforms. When prompted for an example, CB2 explained:

Turgut Özal was an exception, not the rule. After Özal, in the 1990s, bureaucracy was the driving force behind the reforms. Of course, IMF and the WB played important roles. But politicians did not say “let’s leave behind the status quo, let’s implement these reforms.” All the reforms of this period [1999-2005] including central bank independence, banking regulations, social security reforms, successful or not, all were prepared by bureaucrats. Derviş was too a bureaucrat, and a scholar, not really a politician.

Underneath this sentiment lies a deep, experience-based suspicion of politicians’ intentions. T4 argues that “under normal circumstances, politician does not want new regulations; Treasury regulations tie politicians’ hands, and they would like to do business as usual, without records and controls.” CB4 agrees and recalls an anecdote of half-hearted reforms initiated by Özal:

Some reforms are imposed by politicians. Yet, even those reforms are not set in stone. Even a politician who initiates these reforms think that “what if some day we need a back door,” so they always leave a part open to interpretation, just in case. These experiences show me that reforms in Turkey are fragile.
This kind of opportunistic attitude is also observed for IMF programs: “All sides [IMF and economic agencies] assume that signature means something, it does not, politicians do not act accordingly” (CB1). CB1 exemplified this short-sightedness with the 1999 program. Central bankers and econocrats of the Treasury regard that program not as a failure, but a partially implemented mediocre package. They argue that the 2001 crisis was a result of this partial implementation: Had the government “[taken] care of the public finance, [implemented] a tight fiscal policy, and most importantly [supported] a banking regulation agency” instead of considering their own interests in the public banks, there would have been no crisis (CB1). The 1999 SBA was implemented successfully for the first six months. However, starting from June 2000, the momentum for reforms stalled; major structural reforms including tax reforms, privatizations, and the new central bank legislation remained at the assembly line. Main reason for this delay seems to be the short-sighted satisfaction of the politicians with the immediate results of the program such as the falling inflation rate (Aydoğan & Yönezer 2007, 25).

A second path to economic reforms is through bureaucratic guidance that is based on the asymmetric technical information econocrats possess. This kind of reform is initiated in two ways: either the econocrat convinces the politician about the short-term electoral benefits of the reform, mostly measures that increase growth rate (e.g. revaluation of the currency), or an economic crisis opens a window of opportunity for the alliance of IMF/WB and the bureaucracy to depict the reforms as the only way out of the crisis.

Politicians seem to care about the end result, specifically the impact on growth. T2 argues that if bureaucrats can promise 10 percent growth rate, politicians would sign anything. A recent example of this disproportionate focus is government’s adoption of the mortgage reform in 2007: “AKP government saw the merits of the mortgage reform, how it might boost the construction sector, and hence the overall economic growth. We did not do much to realize that reform, it was easy.” (CB4). In this scenario, bureaucrats act
as advisors, “they have to make their case, they have to convince their bosses with their technical knowledge and expertise” (M3). A central banker, CB4, likens the process to that in a private company: a new idea emerges, a “lobby” adopts this idea and promotes it by talking to other bureaucrats and the politicians; politicians who are responsible to the electorate have the last word.

What happens to those ideas that are rejected by politicians? They live in a cupboard until opportunity arrives to re-serve them. CB2 explains:

If there is no emergency, bureaucrats can not knock politician’s door demanding reform, especially with the Fund’s backing. Politicians do not like the idea of cooperation between the IMF and their men. Therefore, bureaucrats act very cautiously, they prepare reform files and they wait for the right moment. Once they [politicians] feel cornered [by the economic downturn], they themselves will ask for it [reforms].

Without immediate repercussions, politicians will resist to changes in the economic system. Following the November 2000 crisis in Turkey, both IMF and econocrats warned the government about the risks of the crawling peg, and advised adoption of the floating exchange rate regime. Yet, even the November crisis was not enough to convince politicians (Aydoğdu & Yönezer 2007, 31).\(^{130}\)

A crisis is an opportunity for discussion, networking, and production of new solutions. CB1 recalls the post-1994 crisis:

That is what we do in Ankara: we [bureaucrats of the CBT, Treasury, SPA, and the MOF] meet for dinner and discuss topics such as central bank independence,

\(^{130}\)Turkish politicians were convinced to adopt a floating exchange rate regime only after the February 2001 crisis. Even then IMF officials Stanley Fischer and Carlo Cotarelli had to make a threat of program suspension in addition to econocrats’ warning about the possibility of failing to pay salaries of the public servants (Aydoğdu & Yönezer 2007, 34).
public spending, debt management, and banking regulation.

These meetings prepare the top-level bureaucracy to the impending window of opportunity that a crisis opens up for introducing costly reforms. Bureaucrats who participated in this study emphasized that any reform made following a crisis, even those included in the Fund’s list of conditions, are prepared earlier by mid- and top-level public servants.

IMF cannot know the fault lines in our system. It was our bureaucracy that prepared the structural reforms like the banking regulation agency [reform], because bureaucrats knew how politicians’ meddling with the reforms impeded implementation. It was our bureaucracy that took the program to the Fund and made them accept the measures.

T3 gives this quote and exemplifies with how the 1999 program was prepared by Hikmet Uluğbay, the Deputy Prime Minister responsible for economy, and the “intellectuals” of the economy bureaucracy. CB2 makes the same comment based on his experience after the 2001 crisis:

Kemal Derviș is seen as the architect of the 2001 reforms. Of course he had a great contribution, but it was not possible for him to arrive in Ankara and learn our issues so quickly. We had a team of 15 [bureaucrats] from different agencies, Derviș’s contribution was to support this group.

Another Treasury econocrat, T4, exemplified this process with the 2003 Public Financial Management and Control Law No. 5018. This legislation brought new standards to internal and external control mechanisms for public institutions as well as financial discipline and transparency. The legislation was written in the Treasury, and “composed of decrees prepared separately and collected over time.” The econocrat (T4) emphasized that although the document was readily available, they could not use it until after the 2001 crisis, when “there was strong international pressure for reform on the government.”
The international pressure this econocrat refers to is the Fund’s bargaining power before signing an agreement with a country in crisis. Conversations with 12 veteran bureaucrats confirm that a few key experts in the CBT and the Treasury attend the negotiations with the IMF representatives. During these negotiations, at least for the Turkish case, intense bargaining takes place and both parties try to convince each other: “If you discuss with them using a strong stance, they listen. Their strategy is to express the same argument again and again. So you also have to repeat your own argument, you should not retreat” (CB2).\(^{131}\)

In addition to strong argumentation, these meetings also provide platforms for socialization, which most econocrats seem to downplay: “After awhile, you become friends with these people, naturally. I am still friends with some of them although I am no longer a central banker and they are no longer IMF representatives. But I don’t think they [friendships] are that important.” The relationship between econocrats and the Fund officials, thus, emerged as the second theme.

As one of the treasurers (T1) suggests, the shared language of economics is the key component of this distinct relationship: “Agencies that can speak to international organizations [IMF and WB] are the central bank and the treasury, and to some extent state planning agency. Because they speak the same language, not English, but the language of economics.” Both parties refer to the same definitions when they refer to concepts such as financial stability, fiscal responsibility or good governance. This kind of common understanding stems from economists’ training and their experience within the IFIs.

CBT and the Treasury are the agencies that are legally responsible for negotiations with the IMF. The letter of intent is signed by the Minister of State in charge of Treasury

\(^{131}\)Anecdotal evidence supports this claim. Accordingly, IMF recommended establishment of a Currency Board similar to the one in Bulgaria during the 1999 SBA negotiations. Yet, econocrats of Ankara resisted this recommendation by arguing that the central bank is not autonomous and there is no exit policy once a country adopts a Currency Board. See Aydoğan and Yönezer (2007, 19).
and the CBG of Turkey. Thus, these two agencies focused on employing economists with graduate degrees from abroad and sending their personnel to prestigious programs in the Western hemisphere. The Ministry of Finance, on the other hand, adopted no such strategy. M1 evaluates this policy of the ministry as a disadvantage. He argues that educational background determines bureaucratic quality of policy recommendations, which affects size of the agency slack. His argument is supported by the fact that Turgut Özal recruited Western-educated economists with work experience in the IFIs in the early 1980s, and their careers in the CBT and the Treasury resulted in more responsibility for these two agencies. One of these early recruits (CB1) explains the bridge through which neoliberal ideas and practices penetrate the domestic economic scene:

Of course there is interaction between us and them [IMF] and reciprocal influence. Because we speak the same language. If you have already worked at the IMF, you know what they will say at the table. I know because I sat there in their seats once, I was born there. When I was in office, we completed the program. We had no problems.

The younger econocrats have also inherited this linkage based on shared language and ideas through the bureaucratic hierarchy. T3, for example, has always taken the new recruits of the Treasury with him to the IMF meetings, so that they would learn how to communicate with the IMF officials, the way to interact with them. Another, much younger central banker (CB4) said that they always consult the IMF on monetary matters, and have no complexes about this fact. He also underlined that IMF bureaucrats are very eager to help them as they want to prove their relevance.

IMF feeds this idea of an epistemic community of econocrats by bringing together econocrats from different countries and help them share experiences. On currency revaluation, for instance, CB2 remembers to receive policy recommendations from Brazilian, Argentinian, and Israeli experts who were introduced to them by the IMF. As an infor-
information provider and a catalyst for cooperation among elites, IMF exemplifies the indirect channel of influence through which international organizations affect domestic politics. CB2 explains the mechanism:

They sent an international team of experts to our research department. This team travels to everywhere if inflation targeting is used as an instrument. These are academics, very good scholars. Cooperation among central banks is very productive. You go and ask whatever questions you have to people who have actually implemented those same policies. They give us recommendations, even about the consequences of these policies and the reactions. They told us that when you implement inflation targeting, you will experience currency appreciation, and import sectors will call you traitor. They really did call us that.

CB3 agrees by emphasizing the reciprocal nature of the relationship: “IMF and WB are leading organizations in our field. They send us working papers and ask for our opinion. We send our new recruits to these organizations. They of course have influence on us.”

Although most of the interviewees easily find examples of indirect IMF influence, they have a hard time recalling the instances of direct imposition. One exception is the establishment of the banking regulation agency after the 1999-2001 period. CB3 says that “IMF came and pressed for it [the foundation of Banking Regulation and Supervision Agency]. It was established despite Turkish government’s objection. Turkey did not want this.” Thus, the interviews give the impression that the Fund generally works through persuasion and relies heavily on the contextual opportunities (i.e. crises) and similar-minded domestic interlocutors. Having said that, this reliance has its limits because econocrats –even those with minds similar to the Fund’s– have a patriotic trait that makes them uneasy about being too close to the Fund. Many bureaucrats find the right balance between being cooperative and being too protective; yet their positions also contribute to the inter- and intra-agency competition.
In Turkey, CBT and the Treasury work more closely with the IFIs compared to the Ministry of Finance. As mentioned above, this separation affected the personnel policies of these agencies. Public servants who often engage with international bureaucrats, tend to be selected among those with a better command of English, and they also have more opportunities to study abroad. Central bankers who participated in this study link these differences in their career paths to the wider area of responsibility of the CBT. CB3, for instance, argues that because it is the CBG’s signature on the letters of intent sent to the Fund, whether they like it or not, all other agencies should follow the Central Bank’s lead. This attitude attracts resentment from those in the other agencies. Two econocrats from the Ministry of Finance, M2 and M3, define IMF-Treasury and IMF-CBT relations as “too close.” They argue that the recurring negotiations with the Fund increase the overall influence of the Treasury on economic policy-making. Selçuk Demiralp, the Undersecretary of the Treasury during the 2000-2001 crises, argued that because of the redistributive effects of the reforms, econocrats were labeled as “Fundists” and faced with great resistance from all branches of the state (Aydoğan & Yönezer 2007, 42). In addition to the inter-agency competition, IMF programs have impact on intra-agency affairs too. Department of Foreign Affairs at the CBT, for instance, is responsible from foreign debt and relations with the Fund and the WB. The Department, therefore, had attained prominence over others in the CBT.

The issue of bureaucratic rivalry brings us to the last common theme of the interviews: conflicts. Intra-agency conflicts are rather easy to solve because of the bureaucratic hierarchy. If and when different opinions emerge, head of the agency listens to all sides and makes a final decision. In the CBT, for instance, there may be long debates between departments and debates with the IMF, but the Governor uses his extensive powers and decides one way or the other at the end (CB1).

Inter-agency conflicts, on the other hand, seem to be pre-existing and only rise to the
surface more during the IMF programs. Basically, econocrats from the Ministry of Finance are more suspicious of the Fund’s intentions and accuse the other two agencies of being inappropriately in good terms with the Fund officials. M2, for instance, claims that “IMF prepares the letter of intent, then we give it back to them as if it is ours.” This is entirely the opposite of the negotiation process described by the central bankers and treasurers. Another common criticism against these two agencies is their collaboration against the politicians. According to M3, “they [central bankers and treasurers] use IMF to ask for the policies they prefer; they cooperate with the IMF against politicians.” M4 agrees: “I once asked a Treasury Secretary: When you cannot convince the ministers, you call your dear IMF, don’t you? He replied: yes, so what?”

Interestingly, on the subject of misrepresentation of economic conditions and the cooperation with the Fund, interviewees from the CBT and the Treasury speak similarly. CB4 reminds us that majority of bureaucrats and politicians dislike the Fund:

Only a small portion of economy bureaucracy, only those who are less nationalistic and more technocratic, they understand IMF and they use their relations. Bureaucrats would go and ask the prime minister for some reform. The PM would not listen. Then bureaucrats go to the IMF. When the same request comes from IMF, the PM listens.

T2 argues that because of the complicated content of the economic policies, politicians often “do not know what is what, so they turn to bureaucrats who use the IMF as a policy instrument.” T3 makes the same argument by using an analogy from the private sector:

In private sector, if one cannot convince a CEO, another way is to use an advisory group. Instead of these advising firms, international organizations play this role against the government. If bureaucrats cannot convince the minister of their
preferred policy, they strike an alliance with the Fund. If I can use IMF in this manner, then it is an instrument for me. Some may say I as the bureaucrat am the instrument of the IMF. Not really. How would a Fund representative who comes here once or twice a year would know how things work here, what kind of reforms are needed? They have no in-depth knowledge of Turkey. We fill in the blanks.

These econocrats claim that they use the Fund to steer politicians towards some economic measures, which they would not have considered to carry out otherwise. This collaboration sometimes extends to misrepresentation of the economic conditions in order to convince the political actors of the urgent nature of the reforms. CB2 explains:

We warned the governments after the 1994 crisis, between 1994 and 1999. Politicians did not take us seriously, you always paint a bleak picture, they said. They did not take the measures they should have. It is indeed true that bureaucrats paint a darker picture in countries like ours. They do this, because they would lose their jobs in case of a crisis. This, however, does not mean that they are lying.

To sum up, econocrats of the Treasury and the Central Bank of Turkey are capable of communicating with the IMF officials, and hence influencing policies to be implemented. This “agency slack” becomes considerably greater when these institutions enjoy some level of autonomy. One event in Turkey –replacement of the CBG Süreyya Serdengeçti in 2006– demonstrates significance of strategic appointment to an independent central bank. Serdengeçti is described as the “Alan Greenspan of Turkey” (USDS 2006c). He became CBG during the 2001 crisis and fought hard for the legal independence of the central bank. In fact, U.S. Embassy in Ankara claims that he described his struggle as a “guerilla war he has had to fight against senior officials who want to rein the bank in” (USDS 2006c). The same document pinpoints Serdengeçti’s policy preferences by marking him as “the preferred
candidate of the markets and the IFIs” (USDS 2006c). Yet, in 2006, the government decided not to renew Serdengeçti for a second term. The Turkish PM’s first choice was Erdem Başçı, the only one of the Vice-Governors selected by the AKP government. Başçı’s appointment was vetoed by the President, and the Central Bank remained in limbo for two months (Strauss 2011).

In the meantime, Turkish government violated several IMF conditions (e.g. a reduction of value-added taxes on textiles), and overruled objections of econocrats such as Treasury Under Secretary Ibrahim Çankaci (USDS 2006a). In May 2006, Durmuş Yılmaz was appointed as CBG. Compared to Başçı, a young economist, Yılmaz was a career central banker who had no political ties, consequently his appointment was well-regarded by the markets. As an independent CBG, he “publicly took on the government” and warned politicians on civil service wage increase and the 2007 budget package (USDS 2006b).

If we look at the career paths of these figures, we see a pattern similar to the one suggested in this dissertation. Serdengeçti became a university lecturer. Çankaci has been appointed IMF Executive Director in 2014. Yılmaz was selected as the Central Bank Governor of the Year in 2009, yet he too was not reappointed after his term ended in 2011. Yılmaz remained as Economic Advisor of the President until 2014. Başçı replaced Yılmaz in 2011. Since his appointment, he was widely criticized for not resisting government’s pressure on keeping interest rates low. In fact, some argued that since 2013 CBT’s institutional independence has eroded remarkably (Turhan 2015).

As the Turkish case shows in detail, econocrats have policy preferences that matter. Variation in their preferences together with their level of autonomy may influence negotiations with the IMF as well as implementation of the attached conditions. This effect, however, may create new conflicts of interests in domestic politics among bureaucrats, and between bureaucrats and politicians.
5.3 Implications

In this chapter, I have presented supplementary evidence of the relationship between implementation of IMF agreements and the identity of the implementers. Case studies and the interviews with the Turkish econocrats suggest a nuanced approach to the causal mechanism suggested in Chapter 4.

Of the two independent variables we focus on, econocrats’ policy preferences seem to go a long way for achieving higher levels of implementation. The mechanism here is the common language that conservative econocrats share with their IMF counterparts. Cases of Bolivia and Pakistan, together with the statements of the central bankers and treasurers in Turkey, show us an epistemic community or a network of technocrats who understand and trust each other. Relying upon this rapport, econocrats with conservative policy preferences are more capable of convincing the international bureaucrats at the negotiation table. What they gain depends on their reputation, their country’s economic position as well as the global economic climate. Yet, they seem to have an advantage in receiving waivers, extra time or more flexible conditions. Their presence help IMF officials understand the inherent conditions of the borrowing country, and adjust the economic program according to country-specific dynamics. Zambian case shows us what happens in the absence of such conservative econocrats. Due to lack of counterparts with a shared understanding, Zambian program was written mostly by IMF and WB officials who had little insight on Zambia by their own admission (Callaghy 1990, 299). As a result, Zambia had to sign an IMF program without any input from Zambian officials; non-compliance ensued and the program got suspended.

The other variable, institutional autonomy, affects how econocrats behave in case of disagreement with the politicians. Conservative econocrats without autonomy cannot criticize their principals publicly. Pakistan exemplifies this effect clearly: PM Bhutto held the finance portfolio and the central bank did not have legal autonomy, thus CBG Muhammad
Yaqub did not express his discontent with the government’s policies. Yet, when the central bank independence in Pakistan increased and Yaqub became more vocal, he clashed with PM Sharif and resigned. I predicted conflict of interests between politicians and bureaucrats as one of the auxiliary outcomes of Category A (Table 5.4). As Pakistan crossed from category B to A, such clashes occurred. In Bolivia, a country with a more established system of autonomous agencies, some politicians complained about not being able to influence the economic institutions. In contrast, there were no public declarations of disapproval from Zambian econocrats, and when needed econocrats with conservative ideas were sacked immediately.

The case of Zambia pointed out another causal mechanism between bureaucratic policy preferences and compliance with international agreements: conservative econocrats communicate goals of an international agreement to the general public. Especially central bankers with their increased public visibility may play an important role in cultivating program ownership. When they talk about the specific reforms necessary to control inflation, the public may be more open to the message compared to the one delivered by the politicians.

In terms of alternative explanations, first I consider the possibility of bureaucratic capacity being the reason for variation in implementation levels. It is true that Bolivia had a much better governance score compared to the rest. This is somewhat expected, because bureaucrats’ educational background and institutional delegation are supposed to be correlated with these aggregate scores. Bureaucratic capacity alone, however, does not explain why Pakistan performed better with scores lower than Bulgaria. This explanation is also not useful in accounting for the similar implementation rates of Bulgaria and Zambia despite the difference in governance scores.

Another alternative explanation is a top-down approach to implementation, meaning programs get implemented if politicians want them to be implemented. In all four cases,
politicians in power were at best reluctant partners of the Fund. Some of them (e.g. ADN in Bolivia) won elections on anti-adjustment agenda; others were ideologically opposed to IMF (e.g. BSP in Bulgaria and UNIP in Zambia). Thus, none of them supported neoliberal reforms full-heartedly. Moreover, in all four cases government was under pressure from societal groups and/or their own political party.

Again all four countries had to deal with external constraints to adjustment such as regional economic crises, changing terms of trade for essential commodities, and civil war in their neighbors. In short, they were similar in terms of economic hardship, regional issues, internal strife and the extent of political will to comply. Lack of variation in the independent variable makes this alternative explanation less plausible.

In conclusion, this chapter reveals two major routes through which econocrats influence implementation of IMF programs. The first one is a direct route which is only available to conservative econocrats with institutional autonomy. These actors are able to negotiate and implement IMF conditions somewhat free from politicians’ input. Yet, as in Bolivia, this route may create a backlash and result in public reaction against the bureaucrats and the IMF. The second route is an indirect one in which conservative econocrats use several methods to realize their policy preferences. One such method involves convincing their IMF counterparts for waivers or flexible conditions. They also communicate the program content to investors, firms, NGOs, and the general public. This increases program ownership and buys time for reforms to take effect. Last but not least, some econocrats may exaggerate the problems in order to gain politicians’ support for the reforms. Considering all these strategies, a borrowing country with conservative econocrats in charge of the IMF program has a greater chance of completing that program compared to a country without such a cadre.
Chapter 6

Conclusion

This thesis posed the question of why non-compliance is so prevalent for IMF agreements despite the strong monitoring and enforcement mechanisms in place, as well as the inclusion of country representatives in the IMF decision-making framework. Given that central bankers, treasurers, and finance ministers of IMF clients form the Board Governors of the Fund, and they participate in negotiations with the Fund officials repeatedly, how and why do these clients deviate from their obligations towards international financiers so frequently? If all parties to these agreements know of the attached costs of implementation and repercussions of non-compliance, why do they go off-track?

I argue that implementation of international financial agreements is essentially a domestic issue with consequences for the international arena. Thus, it is difficult to respond to the questions above without referring to the domestic conflicts of interests among actors with different policy preferences. Specifically, I focus on how bureaucrats involved in IMF negotiations diverge from politicians with regard to their career aspirations and policy positions. Some economy bureaucrats or econocrats are exposed to neoliberal ideas throughout their education, and these ideas are cemented further by their relations with their colleagues in international financial institutions. As a result, they value conservative monetary policies, a balanced budget, and cautious spending habits. On the other hand, politicians cannot afford many of these policies which would be beneficial only in the long run and therefore contradict with short-term political interests. Authoritarian and democratic governments alike are judged by the people based on their economic performance, albeit with an unequivocal focus
on unemployment and growth rates. Such a disparity between policy positions of politicians and some econocrats may surface prominently in bargaining and implementation stages of IMF agreements.

IMF becomes an informal principal to econocrats during programs. Fund officials visit clients regularly, evaluate where authorities stand with respect to program targets, and assess the prospects for program completion. Thus, econocrats do not only answer to politicians but also get scrutinized by the Fund. When econocrats diverge from the short-term economic interests of politicians, they find themselves closer to the policy position of the Fund. Therefore, tangibly, I expected to find positive correlation between compliance with IMF program conditions and presence of conservative transnationalist econocrats in office. The magnitude of this interest-based disparity and its effects on compliance, however, depend on the relative autonomy of bureaucratic institutions in a given country. The more independently economy bureaucrats may make decisions, the more capable they are in controlling the implementation stage. If econocrats lack this direct mechanism of influence, they use indirect paths. These include demanding an over-ambitious program from the Fund and misrepresentation of economic conditions to politicians. Based on the variation in these two key factors—policy preferences and degree of bureaucratic autonomy—bureaucracy may contribute to the likelihood of international cooperation.

The main findings in this thesis support my argument that econocrats play a key role in implementation of international financial agreements. When econocrats with undergraduate and graduate degrees in Economics and Business Administration are in office, borrowing countries tend to achieve a higher level of program implementation. Bureaucratic autonomy augments this effect. The combined effect of conservative policy preferences and autonomous economic agencies is also influential on the type of the agreement signed and the IMF enforcement on non-compliant clients. Countries with autonomous conservative econocrats are more likely to sign lenient, flexible arrangements, as well as more likely to
receive waivers and less likely to be sanctioned through program suspension.

This thesis has opened the black box of state as a unitary actor in international relations by moving the focus towards interests, policy preferences, and relative discretionary powers of domestic actors. In doing so, it brings forth strategic relations between actors relevant to context, in this case, economy bureaucrats and politicians. Simply put, I argue and show that bureaucrats with interests and policy positions similar to those of international organizations may improve international cooperation. Their ability to contribute as such, though, depends on their autonomy or job safety. Further more, such domestic mechanisms of international cooperation may lead to governmental disputes and alienate econocrats. As in the case of Bolivia, if IMF chooses to communicate with econocrats and ignore warnings from politicians or social reactions, it risks negative public reactions leading up to break off of relations altogether.

The goal of this chapter is to outline this argument and discuss its position in the larger international relations literature. Next section will review the main findings of this thesis and how I arrived at them. I will also address connections to major literatures this dissertation builds upon, alternative explanations, and limitations of this research. Following section will summarize the theoretical and policy implications of the findings. Finally, I will discuss the research agenda this study opens and the questions that lie ahead.

6.1 Bureaucrats as Negotiators and Implementers

The systematic literature review I conducted for this dissertation showed that studies on IMF rarely use mixed methods. Most employ either case studies or large-n statistical tools. In addition, bureaucrats seldom provide the main focus, and then only in terms of their capacity or professional quality rather than as strategic actors. To fill these gaps, I
undertook a mixed methods study of economy bureaucrats and their role in negotiating and implementing IMF programs.

The puzzle that inspired this research was the contradiction between the position of the economy bureaucrats in IMF structure and the widespread problem of non-compliance with the Fund-sponsored agreements. More precisely, despite the fact that economy bureaucrats constitute the IMF, and that any conditionality package is freely negotiated, we still observe high rates of partial implementation and program suspensions. Why would these domestic actors ever fail to comply with the provisions of the conditionality agreements? To explain this variation, I turned to the question of how econocrats, given their interactions with the Fund and their own government, influence compliance with international financial agreements. In answer to this question, I found the following:

- Econocrats become more influential when IMF gets involved. Spatial models in Chapter 3, as well as cases of Pakistan and Turkey, show this change. Presence of program conditions and regular visits by the Fund officials expand agency slack of econocrats. Politicians feel the need for expert advice under IMF supervision both because of the technicality of attached conditions and the Fund’s taking notice of the economy bureaucrats. As a result, de facto autonomy of econocrats increase during a program compared to the sans-IMF case.

- In terms of factors that affect influence of econocrats, policy preferences (education and socialization) and autonomy (delegation, independence) are examined in this dissertation, and found to be significant. When a central banker has undergraduate and graduate degrees in Economics or Business, and enjoys job safety, implementation rates of IMF agreements increase by 23.4%. The same econocrat decreases probability of program suspension by 37.8%. If conservative econocrats lose their autonomy even slightly, their influence over policy suffers.
With regard to the question of causal mechanisms, econocrats use direct and indirect paths depending on their level of autonomy. If they enjoy job safety and a relatively large agency slack, they rely on policy-making to control if program targets are reached. If they lack such powers, econocrats try to influence negotiations and perceptions of the politicians. Empirical analysis shows that conservative econocrats are better at receiving flexible conditions and waivers. By persuading the Fund at the bargaining stage, they are able to exercise influence on implementation as agenda-setters. Econocrats also use their expertise to convince politicians of the necessity of economic reforms. Some Turkish econocrats mentioned exaggeration of the economic malaise as a strategy for this purpose.

As an expected result of the first and third findings, disputes between econocrats and politicians arise when conservative and autonomous econocrats make decisions or announcements contrary to the preferences of politicians. Politicians feel threatened, and sometimes react against the Fund. Bolivia’s move away from IMF and Turkey’s recent maneuvers to curb central bank independence are supporting examples.

These findings contribute to the literatures of international cooperation and IMF lending by challenging the unitary actor assumption in international relations, suggesting causal mechanisms for the domestic-international linkage through epistemic communities of econocrats, and introducing an actor-centric bottom-up approach to explanations of (non-) compliance. Mainstream theories of International Relations put nation-states at the center stage, and dismiss domestic institutions and actors as irrelevant components inconsequential at the global level. They arrive at this conclusion based on the systemic impact of international anarchy, which forces states to act alike. International cooperation literature challenges this view by investigating linkages between variations in domestic and international spheres of influence. Current research shows that such linkages exist between international organizations and domestic NGOs, interest groups, and political parties. This dissertation
contributes this agenda by extending its implications to bureaucratic institutions, and even individual actors. Due to their belonging to an international epistemic community of expert economists, some of these individual actors are capable of influencing the domestic and international policy space. Their ability also stems from their unique position at the negotiation and implementation stages of international cooperation. Broadly speaking, this study builds on the cooperation literature by focusing on a new set of domestic actors, and emphasizing when and how they influence international cooperation.

This contribution has specific implications for the IMF literature as well. It explains the puzzling fact that IMF struggles with non-compliance and questions of effectiveness despite its strong monitoring and enforcement mechanisms. Studies on the Fund’s performance fail to address whether or not programs are implemented fully. This approach attributes program suspensions to the Fund’s incompetence, external shocks, administrative capacity issues, but rarely considers the strategic interaction between domestic actors with different policy preferences. This study introduces the strategic component as an explanation of variation in compliance rates not just between different states, but also between different periods in the same state.

The IMF literature responds to the question of partial implementation in two ways: a top-down approach that emphasizes client state’s decision to deviate from the agreement, and the capacity issues that prevent well-intentioned governments from implementing the Fund’s recommendations. These alternative explanations, though may co-exist, refer to different motives.

The first one assumes that either states sign IMF agreements without any intention of complying with them or governmental interests change along the way and they deviate. This shift is usually attributed to worsening economic conditions or an approaching election. Regardless of whether or not a shift happens, non-compliance or partial implementation is a voluntary policy according to this argument. Thus, IMF’s task is to select its clients care-
fully. If the Fund selects those states that are ‘sincere’ reformers, non-compliance will not be a problem any more. This alternative explanation, however, is the epitome of the unitary actor assumption, which does not take into account multiple actors and their interests in play. Even though it is an elegant and simple solution to the puzzle of partial implementation, it does not explain how states continue to deceive IMF or why IMF does not evolve to find the so-called ‘sincere’ borrowers. If it is just the money some IMF clients are after, why would they implement some painfully costly economic reforms and halt others? This argument should have led us to program suspensions after the release of the first loan installment, and especially non-compliance in the first year of the program. On the contrary, we observe programs that have been implemented for some time going off-track. Another counter evidence is that some states fall into arrears, slow down or fall back in the adjustment process, so IMF issues warnings, and then some improve their performances instead of abandoning the program completely. In other words, when one looks at the IMF data, one does not find a one-way path from compliance to non-compliance. There is real variation and temporal fluctuation in performances of borrowing countries that ill intentions cannot explain.

The second alternative explanation addresses this variation in implementation rates with involuntary defection due to unexpected domestic and international events. In this view, states intend to comply with IMF conditions, but they either lack social capital necessary to implement the reforms or a crisis of economic, social, or political nature diverts the course of the government. These ‘unexpected’ circumstances are in fact quite anticipated by the Fund officials. As the selection models in Chapter 4 showed, countries with high levels of debt and low levels of growth tend to sign IMF agreements. Thus, IMF is already aware of impending economic crisis—and accompanying political and social tensions—in its clients. Country evaluations of the Fund usually refer to these problems, and in some cases such as Bolivia, the Fund terminates a program before elections in order to let the new government decide on signing a new agreement. In other cases, possibility of these shocks earn borrowing countries more lenient conditions at the negotiation table, or waivers when programs go off-
track. Turkish econocrats, for instance, were able to persuade IMF for allowing the state’s purchase of toxic bank assets after the 2001-2002 economic crisis coupled with a quarrel between the president and the prime minister.

In terms of capacity issues, as the four cases in Chapter 5 exemplify countries with different levels of implementation, all, have similarly low scores for bureaucratic capacity and high scores for corruption (Table 5.4). To address this problem, IMF uses technical assistance programs for low-capacity countries. Bulgaria, a case with high capacity scores and high level of bureaucratic autonomy, ended up with very low levels of implementation (0.2) and suspension without any program extensions or waivers. Politicians and econocrats of Bulgaria had a set of policy preferences different from those of the Fund. In domestic politics, there was no heterogeneity of interests, therefore no room for IMF to insert its policy agenda. As a result, the Fund by-passed econocrats by insisting on a currency board. Thus, even though social capital may influence how IMF programs are negotiated and implemented, it does not explain why countries with high bureaucratic capacity fail to comply.

This dissertation also has limitations. To strike a balance between tractability and compatibility with reality, I focus on directors of domestic institutions. An ideal version of the bottom-up approach to policy-making would have been sufficiently diversified in terms of actors included. Biographical data for lower level bureaucrats in central banks or treasuries are not currently available; thus this research goes only as far as the data in relaxing the unitary actor assumption. Another limitation is exclusion of politicians and IMF officials from the interviews. Future studies will benefit from analytical narratives that include perspectives of these two sets of actors.
6.2 Theoretical and Policy Implications

This study demonstrates that domestic and international spheres of politics have coalesced beyond the influence of public opinion or non-governmental organizations as domestic stakeholders. Actors who occupy different governmental posts consider international agreements through the prism of their own policy preferences and interests. They do not always act in unison, and this discord creates both opportunities and challenges for international regimes. For scholars of international organizations, this study implies a new way to look at domestic politics: Who or which agencies are involved in negotiations? Is there a pattern of socialization or academic development for the staff in these agencies? Are they members of an international epistemic community? Do they have any direct influence over policy? Is there variation in their policy preferences and career paths? Asking these questions may open new research agenda which consider cooperation as a process rather than a dichotomy between compliance and non-compliance.

Another implication lies in the mixed methods approach I use for this study. After a period of discussion between the qualitativist and quantitativist camps, it has become apparent that both techniques offer valuable ways to model and evaluate theories of the Political Science discipline. For complex topics that consider strategic relations among multiple actors, mixed methods combine these advantages and increase explanatory power. Through the empirical and case study chapters of this dissertation, I was able to address both presence of a general pattern and causal mechanisms of that macro pattern in micro relations within states.

Theoretically, this study also integrates rationalist and constructivist approaches. One of my primary independent variables is heterogeneity of interests in domestic politics. To operationalize interests, however, I turn to constructivist concepts of preference formation through education, socialization, and career ambitions. Variation in these parameters
determines the distance between bureaucrats and politicians, as well as bureaucrats and the IMF. In addition to operationalization, these constructivist concepts were also helpful in motivating the interviews in Chapter 5. These interviews establish how econocrats construct their identities and determine their policy preferences. Those with advanced degrees in Economics and work experience in international organizations claimed to speak the same language with the Fund officials and expressed their support for IMF-backed reforms. On the contrary, econocrats with other degrees and limited international experience revealed more nationalistic tendencies, even accused other agencies of being too close to IMF. In short, constructivist insights such as these may accompany and enrich interest-based, rationalist explanations.

In addition to these theoretical implications, this study could also be of interest to policymakers, especially IMF and World Bank officials. One of the policy implications of this study addresses the client selection strategy of these international organizations. Currently, IMF selects its clients based on some macroeconomic criteria and perception over the display of political will to implement reforms or “program ownership.” Many scholars add relative strategic importance of borrowing countries in world economy, and alliance with the United States as effective determinants of selection. These criteria, however, do not guarantee compliance. Thus, the Fund also imposes conditionality on its clients, meaning partial implementation is an expected result.

This dual structure of program ownership and conditionality is criticized often, and considered as a contradiction. As a result, in 2009, IMF introduced a new set of borrowing instruments that eliminate or significantly reduce ex post conditionality. The Flexible Credit Line (FCL), for instance, employs only ex ante conditionality, whereas Precautionary and Liquidity Line (PLL) has very limited ex post conditions attached compared to the SBA. These new instruments are expected to attract IMF clients with established program ownership. These countries are to implement the prescribed reforms before the agreement
is signed, and rewarded with loans after the signature. Unexpectedly though, these new and diverse borrowing facilities are not in demand. So far, only three countries—Mexico, Colombia, and Poland—signed FCLs.

Low demand for this new set of borrowing facilities indicate that IMF clients consider high conditionality as a valuable signal to international markets. Although these facilities eliminate some cases of partial implementation, most members will continue to sign traditional programs such as SBAs and EFFs, and for them duality of program ownership and conditionality will perpetuate. My findings offer additional criteria to select reformist clients, and diminish the non-compliance rate. If the Fund evaluates its clients on bureaucratic aspects including autonomy of economic agencies and background of those working within the agencies, it will have a more accurate understanding of program ownership in borrowing countries. Having autonomous agencies, low turnover rates in its central bank and treasury, and appointment of conservative econocrats with advanced degrees in Economics, preferably with long careers in their agencies, in academia, or in international financial institutions constitute good indicators of program implementation.

According to empirical results on IMF waivers and case studies in this study, the Fund officials are already utilizing this strategy to some extent. IMF’s relations with Kemal Derviş or Durmuş Yılmaz of Turkey, and Muhammad Yaqub of Pakistan exemplify effects of having “allies” in domestic politics. Although these econocrats and IMF officials had different policy preferences, the shared language and trust between them enabled Turkey and Pakistan to shape their economic programs through waivers and extensions. This dialogue has also been beneficial for the IMF. With input from econocrats, IMF officials are better equipped to set realistic program targets, push when necessary, and halt pressure when domestic conditions require. Lack of such communication leads to cases like the overambitious program of Zambia for which IMF had to do all the ground work without any intimate knowledge of the socio-political conditions. These findings suggest that IMF is aware of the utility of econocrats...
as domestic allies, but uses it in an ad hoc manner, and after signing of programs. I argue that based on evidence from this dissertation, the Fund may develop a conscious strategy of evaluating clients on autonomy and expertise of their economy bureaucracy. This effort will also empower conservative econocrats like Muhammad Yaqub at the onset of a program rather than mid-program when it is too late to prevent suspension.

IMF should also be cautious when seeking allies in domestic politics, especially in countries with established autonomous bureaucratic agencies. My research shows that IMF intervention may exacerbate clashes within bureaucracy or between bureaucrats and politicians in such cases. In Bolivia, for instance, politicians were already frustrated with the autonomy and decision-making powers of central bank and the treasury (UDAPE). Under pressure of social unrest and protests, Bolivian politicians reacted to IMF intervention and isolation from economic policy-making by cutting ties with the Fund. Thus, IMF should communicate with econocrats before and after signing of an agreement, and consider attributes of economy bureaucracy as indicators of compliance, but also remember that the last word belongs to politicians. In other words, econocrats have limited but important influence over implementation of international financial agreements. If the Fund recognizes this role and its limits, it can then improve its compliance rate by filtering potential clients better, setting more reasonable goals for its programs, and predicting involuntary defectors, reformists, and opportunists more effectively.

As a result of this work, further research may be done for other international organizations and their corresponding bureaucratic allies in domestic politics. Is there a similar relationship between human rights treaties and their implementers in signatory countries, specifically bureaucrats in ministries of justice or internal affairs? IMF and World Bank are international organizations that offer career opportunities for conservative econocrats. In addition, they are able to socialize economists around the world in their institutes and conferences. If international regimes lack such instruments, does that mean they have no
way of finding domestic allies? In contrast, some regional organizations possess even more instruments to attract such allies. For example, variation in educational backgrounds and career goals of bureaucrats may be effective on different levels of Euroskepticism observed in European Union (EU) members. A future study that investigates the personnel flows between EU bureaucracy and domestic governments may help us understand how policy convergence or divergence occurs.

Throughout this dissertation, I have focused on the significance of individual actors in international politics. Reading hundreds of biographies and obituaries, I have learnt that as members of larger epistemic communities bureaucrats have much to offer in explaining the linkage between domestic and international spheres, as well as the bridge between ideas, interests, and policy choices.
# Appendix A

Table A.1: Exclusion Criteria

<table>
<thead>
<tr>
<th>Number</th>
<th>Criteria</th>
<th>Reason for exclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Pre-1980 articles</td>
<td>1980 is considered as a point of structural break in IMF studies due to the changing role of the Fund after the Oil Crises.</td>
</tr>
<tr>
<td>2</td>
<td>Natural science</td>
<td>Exclude articles on ‘implementation’ of natural science projects or experiments.</td>
</tr>
<tr>
<td>3</td>
<td>Foreign language</td>
<td>Exclude articles not written in English because author is not fluent in these languages.</td>
</tr>
<tr>
<td>4</td>
<td>Education</td>
<td>Exclude articles on the effects of IMF programs on education.</td>
</tr>
<tr>
<td>5</td>
<td>Medical</td>
<td>Exclude articles on the effects of IMF programs on medical services.</td>
</tr>
<tr>
<td>Number</td>
<td>Criteria</td>
<td>Reason for inclusion</td>
</tr>
<tr>
<td>--------</td>
<td>----------</td>
<td>----------------------</td>
</tr>
<tr>
<td>1</td>
<td>Theoretical papers–international cooperation and IFIs.</td>
<td>Provide the working assumptions and causal mechanisms to be used in the review.</td>
</tr>
<tr>
<td>2</td>
<td>All cases</td>
<td>Examine implementation within and across cases.</td>
</tr>
<tr>
<td>3</td>
<td>All IFIs</td>
<td>Examine similarities and differences between IMF and the World Bank.</td>
</tr>
<tr>
<td>4</td>
<td>All bureaus–domestic institutions.</td>
<td>Examine involvement of all possible agencies.</td>
</tr>
<tr>
<td>5</td>
<td>Quantitative and</td>
<td>Capture all empirical evidence.</td>
</tr>
<tr>
<td>Aspect of study</td>
<td>Not relevant</td>
<td>Peripheral</td>
</tr>
<tr>
<td>-------------------------------------</td>
<td>------------------------------------------------------------------------------</td>
<td>-------------------------------------------</td>
</tr>
<tr>
<td>Theoretical contribution</td>
<td>This article does not provide enough information to assess this criterion.</td>
<td>Weak development of theoretical insights.</td>
</tr>
<tr>
<td>Generalizability</td>
<td>This article does not provide enough information to assess this criterion.</td>
<td>Hard to transfer insights to other cases.</td>
</tr>
<tr>
<td>Methodology</td>
<td>This article does not provide enough information to assess this criterion.</td>
<td>Data incomplete and/or weak research design.</td>
</tr>
<tr>
<td>Relevance of findings, theories, methods</td>
<td>This article does not provide enough information to assess this criterion.</td>
<td>Only tangentially relevant.</td>
</tr>
<tr>
<td>Contribution</td>
<td>This article does not provide enough information to assess this criterion.</td>
<td>Does not make an important contribution.</td>
</tr>
</tbody>
</table>
Appendix B

A Formal Model of Implementation: IMF Programs

Each of the three actors \{F, B, E\} has an ideal point \(x_i\) in \(\mathbb{R}^n\). The status quo Q is at \(x_Q\).

Any actor i's acceptance set \(A_i\) consists of those points \(A_i = \{x : d(x_i, x) \leq d(x_Q, x_i)\}\), where \(d(\ldots)\) is the distance between two points. The utility for actor i for point x equals \(-d(x, x_i)\).

Define PQ as the line \(x_P x_Q\) and pq as the line segment \(x_P x_Q\). Define implementation point \(M = \{x : d(M, E) = \min(d(x, E)), x \in PQ\}\), that is, as the projection of E onto PQ, which may or may not lie in pq. The game consists of two stages. In Level I, F and B choose a program P at \(x_P\); if they do not agree, \(x_Q\) remains. In Level II, E chooses an implemented outcome \(M \in pq\). Note that E may choose \(x_M = x_P\) (full implementation), \(x_M = x_Q\) (non-implementation), or partial implementation that consists of all other points on pq. If \(M = Q\), then F and B will not choose \(P \neq Q\).

**Proposition B.1.** F and B may choose a \(P \notin w_{FB} = f_b \cap A_F \cap A_B\).

**Proof.** Proof by construction. Figure 3.8 shows such a P and M, which both F and B prefer to Q. The point \(P^*\) on the contract curve cannot make both F and B better off. E would implement \(P^*\) at \(M^*\), which B prefers to M but F does not. Hence, P is Pareto-efficient and therefore an equilibrium.  

\(\square\)
Proposition B.2. Neither F nor B will reject a partially implemented program.

Proof. If \( d(x_P, x_F) \leq d(x_Q, x_F) \), then \( d(x_M, x_F) \leq d(x_Q, x_F) \) \( \forall x_M \in pq \) because preferences are convex. \( \square \)

Proposition B.3. E’s preferences over points in PQ are symmetric around \( E^* \), and its imputed utility, defined as \( d(x_E^*, x) \), is a monotonic transformation of \( -d(x_E, x) \) for all \( x \in PQ \).

Proof. The line segment \( x_E x_E^* \) is perpendicular to PQ, so for any \( x \) on PQ at distance \( y \) from \( E^* \) on PQ, there is another point \( x^* \) on PQ, also at distance \( y \) from \( E^* \), such that \( d(x_E, x) = d(x_E, x^*) \), because the right triangles \( x_E x_E^* x \) and \( x_E x_E^* x^* \) are symmetric. \( \square \)

Proposition B.4. If \( E^* \notin pq \) (or \( E^* = Q \)) and if \( d(x_E, x_Q) < d(x_E, x_P) \), then \( M = Q \). If \( d(x_E, x_Q) > d(x_E, x_P) \), then \( M = P \). If \( E^* = P \), then \( M = P \). If \( E^* \in pq \), then \( M = E^* \).

Proof. These solutions minimize \( d(x_E^*, x_M) \) and therefore \( d(x_E^*, x_M) \) in \( pq \). \( \square \)

Hypothesis 1 Either full or partial implementation is observed at the end of a game; complete non-implementation is not an outcome by assumption.

Proof. Proof of the first part of the hypothesis follows from Propositions B.2 to B.4: proof of the second part by assumption if there are epsilon negotiation costs. \( \square \)

Hypothesis 2 All other things held constant, the worse the economic conditions are in a country, the more likely its government implements the IMF program fully.

Proof. Proof by construction. Figure 3.6 shows two Es: \( E_2 \) prefers more IMF credit compared to \( E_1 \) for the same amount of conditionality. Because Q is always located below the
x-axis, $E_2$ does not have a projection of its ideal point on the line segment $pq$. Following propositions B.2 to B.4, $E_1$ chooses $M = x^*_{E_1}$ whereas $E_2$ chooses $M = x_P$.

**Hypothesis 3** With an implementation constraint, set of possible economic programs can expand to include stricter-than-necessary conditionality.

*Proof.* Proof follows from Proposition B.1, since $P$ would not be acceptable to $B$ if it were implemented fully.

**Hypothesis 4** When choosing between two possible programs, the Fund prefers an implementable program over a null one. Knowing this preference, econocrats may ask for programs with more flexibility.

*Proof.* Proof by construction. See Figure 3.9.

**Hypothesis 5** When choosing between two possible programs for countries under extremely poor economic conditions, the Fund prefers a strict program to a flexible one even if it would be implemented partially.

*Proof.* Proof by construction. See Figure 3.10.

**Proposition B.5.** If $M = E^* 
eq P$, then there exists a point $P^*$ on $bf$ that both $F$ and $B$ prefer to $M$.

*Proof.* If $M = E^*$, then $M$ is off the contract curve $bf$, so there must be points on $bf$ that $F$ and $B$ prefer to $M$. One such point is the projection of $M$ onto $bf$ if such a point lies on $bf$. 

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**Proposition B.6.** Notwithstanding the previous proposition, when $M = E^*$, there is no $P_2$ such that (1) both $F$ and $B$ prefer $P_2$ to $M$, and (2) such that $M = P_2$; therefore, $M$ is efficient for $F$ and $B$ and an equilibrium.

*Proof.* Choose $P_2 \in \mathbf{b}f \cap c_F \cap c_B$ such that the line $P_2Q$ is perpendicular to the line $P_2E$ (hence, $P_2 = E^*$); if there is no such fully implementable point, $P_2$, then the proposition holds. When there is such a $P_2$, then as $P$ moves to $P_2$, the corresponding $M$ moves to $M^* = P_2$. No such $M$ will be preferred to $P$ by both $F$ and $B$ because it is off the contract curve $bf$ yet inside the two acceptance sets $c_F \cap c_B$. Yet, as Figure 3.11 shows, there may be a case in which either $F$ or $B$ prefers some $M$ to $P_2$ by construction. In these cases, parties bargain on an implicit contract curve consisting of some points on the line $bf$ and other points $x \notin bf : x = M$ for some $P$.

**Hypothesis 6** Partial implementation point, $M$, is Pareto-efficient and constitutes an equilibrium so that the Fund and its client can find neither a fully implementable program nor another partially implemented point that they both prefer to $M$.

*Proof.* Proof follows from Propositions B.5 and B.6.

**Hypothesis 7** The repeated plays of the implementation game may lead to agreements with flexible conditions over time.

### Signaling Implementation Preferences

Let Nature draw a type $\theta \in T, P$ for the implementer, $I$. $I$ observes her type and chooses a “message” $s_\theta = H, L$. The Fund ($F$) observes the message but does not observe $I$’s type. Following the message, $F$ chooses his response, $s(F) = A, R$.
Let the probability of full implementation by T be $\pi_t$, and the probability of full implementation by P be $\pi_p$. Naturally, $\pi_t > \pi_p$.

Let $\mu$ be F’s cost for monitoring implementation. In order to make this model interesting, assume that $\pi_t > \mu > \pi_p$.

The key assumption is that T and P incur different costs for implementing IMF conditions ($\pi_t > \pi_p$) due to their commitment to different implementation levels, and different costs for asking higher conditionality ($c_t < c_p$).

(1) T and P choose different actions.

**Proposition 3.6.** If $c_t \geq \pi_t$ and $c_p \leq \pi_p$, the following strategies and beliefs constitute a PBE: $s(T) = L$, $s(P) = H$, $s(F) = A$ if L, $s(F) = R$ if otherwise, $Pr\{T|L\} = 1$ and $Pr\{T|H\} = 0$.

If I plays the separating strategy $(L, H)$ then both of the Fund’s information sets are on the equilibrium path, so both beliefs are determined by Bayes’ rule and the implementer’s strategy: $Pr\{T|L\} = 1$ and $Pr\{T|H\} = 0$. The Fund’s best responses to these beliefs are $A$ and $R$ respectively.

Proof. $u_f(A, T) = \pi_t - \mu$ and $u_f(R, T) = 0$, because $\pi_t > \mu > \pi_p$, $u_f(A, T) > u_f(R, T)$. Therefore, playing A is F’s best response to L. $u_f(A, P) = \pi_p - \mu$ and $u_f(R, P) = 0$, because $\pi_t > \mu > \pi_p$, $u_f(A, P) < u_f(R, P)$. Therefore, playing R is F’s best response to H. Implementer’s strategies are best responses to $s(F) = A$ when L and $s(F) = R$ when H, if $u_t(L, A) \geq u_t(H, R)$ and $u_p(L, A) \leq u_p(H, R)$. Because $u_t(L, A) = 1 - \pi_t$ and $u_t(H, R) = 1 - c_t$, $c_t \geq \pi_t$. Because $u_p(L, A) = 1 - \pi_p$ and $u_p(H, R) = 1 - c_p$, $c_p \leq \pi_p$. \qed

**Proposition 3.7.** If $\pi_t + c_t \leq 2$, $\pi_p + c_p \geq 2$, and $0 < \pi_p < \pi_t \leq 1$, the strategies $s(T) = H$ and $s(P) = L$ cannot constitute a perfect Bayesian equilibrium.
If I plays the separating strategy \((H, L)\) then both of the Fund’s information sets are on the equilibrium path, so both beliefs are determined by Bayes’ rule and the implementer’s strategy: \(Pr\{T|H\} = 1\) and \(Pr\{T|L\} = 0\). The Fund’s best responses to these beliefs are \(A\) and \(R\) respectively. However, when implementer’s strategy set is examined, it is clear that type \(P\) has motive to deviate. Therefore, there is no PBE with the separating strategy \((H, L)\).

**Proof.** \(u_f(A, T) = pt - \mu\) and \(u_f(R, T) = 0\), because \(\pi_t > \mu > \pi_p\), \(u_f(A, T) > u_f(R, T)\). Therefore, playing \(A\) is \(F\)’s best response to \(H\). \(u_f(A, P) = \pi_p - \mu\) and \(u_f(R, P) = 0\), because \(\pi_t > \mu > \pi_p\), \(u_f(A, P) < u_f(R, P)\). Therefore, playing \(R\) is \(F\)’s best response to \(L\). Implementer’s strategies are best responses to \(s(F) = A\) when \(H\), \(s(F) = R\) when \(L\) if \(u_t(H, A) \geq u_t(L, R)\) and \(u_p(H, A) \leq u_p(L, R)\). Because \(u_t(H, A) = 2 - \pi_t - c_t\) and \(u_t(L, R) = 0\), \(T\)’s strategy is a best response as long as \(\pi_t + c_t \leq 2\). By definition, \(0 \leq \pi_t \leq 1\) and \(0 < c_t < 1\), therefore \(\pi_t + c_t \leq 2\). On the other hand, \(u_p(H, A) = 2 - \pi_p - c_p\) and \(u_p(L, R) = 0\), \(P\)’s strategy is a best response as long as \(\pi_p + c_p \geq 2\). By definition, \(0 \leq \pi_p \leq 1\) and \(0 < c_p < 1\), therefore \(\pi_p + c_p \leq 2\).

(2) \(T\) and \(P\) choose the same actions.

**Proposition 3.8.** Suppose that \(q \geq \frac{\mu - \pi_p}{\pi_t - \pi_p}\). The following strategies and beliefs are a perfect Bayesian equilibrium: \(s(P) = s(T) = H\), \(s(F) = A\) if \(H\), \(s(F) = R\) if otherwise, \(Pr\{T|H\} = q\), and \(Pr\{T|L\} \leq \frac{\mu - \pi_p}{\pi_t - \pi_p}\).
Proof. Condition for $F$ accepting $H$:

$$EU_f(A|H) \geq EU_f(R|H)$$

$$q(\pi_t - \mu) + (1 - q)(\pi_p - \mu) \geq q0 + (1 - q)0$$

$$q(\pi_t - \pi_p) \geq \mu - \pi_p$$

$$q \geq \frac{\mu - \pi_p}{\pi_t - \pi_p}$$

$s(P) = s(T) = H$ is best response for each type if

$$EU_\theta(H|A) \geq EU_\theta(L|R)$$

$$2 - \pi_t - c_t \geq 0$$

$$2 - \pi_p - c_p \geq 0$$

By definition, $0 \leq \pi_t \leq 1$, $0 \leq \pi_p \leq 1$, and $0 < c_t < c_p < 1$. Hence, these inequalities hold.  

Proposition 3.9. Suppose that $q < \frac{\mu - \pi_p}{\pi_t - \pi_p}$. The following strategies and beliefs are a perfect Bayesian equilibrium: $s(P) = s(T) = H$, $s(F) = R$, $Pr\{T|H\} = q$, and $Pr\{T|L\} \leq \frac{\mu - \pi_p}{\pi_t - \pi_p}$.

Proof. Condition for $F$ rejecting $H$:

$$EU_f(A|H) < EU_f(R|H)$$

$$q(\pi_t - \mu) + (1 - q)(\pi_p - \mu) < q0 + (1 - q)0$$

$$q(\pi_t - \pi_p) < \mu - \pi_p$$

$$q < \frac{\mu - \pi_p}{\pi_t - \pi_p}$$
$s(P) = s(T) = H$ is best response for each type if

\[ EU_\theta(H|R) \geq EU_\theta(L|R) \]
\[ 1 - c_t \geq 0 \]
\[ 1 - c_p \geq 0 \]

By definition, $0 < c_t < c_p < 1$. Hence, these inequalities hold.

**Proposition 3.10.** Suppose that $q \geq \frac{\mu - \pi_p}{\pi_t - \pi_p}$. The following strategies and beliefs are a perfect Bayesian equilibrium: $s(P) = s(T) = H$, $s(F) = A$, $Pr\{T|H\} = q$, and $Pr\{T|L\} \geq \frac{\mu - \pi_p}{\pi_t - \pi_p}$.

**Proof.** Condition for $F$ accepting $H$:

\[ EU_f(A|H) \geq EU_f(R|H) \]
\[ q(\pi_t - \mu) + (1 - q)(\pi_p - \mu) \geq q0 + (1 - q)0 \]
\[ q(\pi_t - \pi_p) \geq \mu - \pi_p \]
\[ q \geq \frac{\mu - \pi_p}{\pi_t - \pi_p} \]

$s(P) = s(T) = H$ is best response for each type if

\[ EU_\theta(H|A) \geq EU_\theta(L|A) \]
\[ 2 - \pi_p - c_t \geq 1 - \pi_t \]
\[ 2 - \pi_p - c_p \geq 1 - \pi_p \]

By definition, $0 \leq \pi_t \leq 1$, $0 \leq \pi_p \leq 1$, and $0 < c_t < c_p < 1$. Hence, these inequalities hold.

**Proposition 3.11.** Suppose that $q \geq \frac{\mu - \pi_p}{\pi_t - \pi_p}$, $\pi_t \leq c_t$, and $\pi_p \leq c_p$. The following strategies
and beliefs are a perfect Bayesian equilibrium: \( s(P) = s(T) = L \), \( S(F) = R \) if \( H \), \( S(F) = A \) if \( L \), \( Pr\{T|L\} = q \), and \( Pr\{T|H\} \leq (\pi_p - \mu)/(\pi_p - \pi_t) \).

**Proof.** Condition for \( F \) accepting \( L \):

\[
EU_f(A|L) \geq EU_f(R|H) \\
q(\pi_t - \mu) + (1 - q)(\pi_p - \mu) \geq q0 + (1 - q)0 \\
q(\pi_t - \pi_p) \geq \mu - \pi_p \\
q \geq \frac{\mu - \pi_p}{\pi_t - \pi_p}
\]

\( s(P) = s(T) = L \) is best response for each type under the following conditions:

\[
EU_\theta(L|A) \geq EU_\theta(H|R) \\
1 - \pi_t \geq 1 - c_t \\
\pi_t \leq c_t \\
1 - \pi_p \geq 1 - c_p \\
\pi_p \leq c_p
\]

**Proposition 3.12.** There is no equilibrium where \( s(P) = s(T) = L \) and \( s(F) = R \).
Proof.

\[ EU_\theta(H|R) \leq EU_\theta(L|R) \]

\[ 1 - c_t \leq 0 \]

\[ 1 - c_p \leq 0 \]

By definition, \( 0 < c_t < c_p < 1 \). Hence, these inequalities do not hold.

\[ \square \]

**Proposition 3.13.** There is no equilibrium where \( s(P) = s(T) = L \) and \( s(F) = A \) if H and \( s(F) = R \) if L.

**Proof.**

\[ EU_\theta(H|A) \leq EU_\theta(L|R) \]

\[ 2 - \pi_t - c_t \leq 0 \]

\[ 2 - \pi_p - c_p \leq 0 \]

By definition, \( 0 \leq \pi_t \leq 1 \), \( 0 \leq \pi_p \leq 1 \), and \( 0 < c_t < c_p < 1 \). Hence, these inequalities do not hold.

\[ \square \]

**Proposition 3.14.** If \( \pi_p(c_t - 1) > c_t - c_p - \pi_t(1 - c_p) \) and \( \pi_t < 1 \), then \( s(P) = L \), \( s(T) = \{ L \) with probability \( \sigma \} \), \( s(F) = \{ A \) if H} and \( s(F) = \{ A \) with probability \( r \) if L} is a PBE.
Proof.

\[ Pr\{P|L\} = \frac{Pr\{L|P\}Pr\{P\}}{Pr\{L|P\}Pr\{P\} + Pr\{L|T\}Pr\{T\}} \]

\[ = \frac{1(1 - q)}{1(1 - q) + \sigma q} \]

\[ Pr\{T|L\} = \frac{Pr\{L|T\}Pr\{T\}}{Pr\{L|T\}Pr\{T\} + Pr\{L|P\}Pr\{P\}} \]

\[ = \frac{\sigma q}{\sigma q + (1 - q)} \]

\( F \) must be indifferent between accepting and rejecting \( L \).

\[ Pr\{P|L\}(\pi_p - \mu) + Pr\{T|L\}(\pi_t - \mu) = Pr\{P|L\}0 + Pr\{T|L\}0 \]

\[ Pr\{P|L\}\pi_p + Pr\{T|L\}\pi_t = \mu(Pr\{P|L\} + Pr\{T|L\}) \]

\[ \frac{\pi_p - q\pi_p + \sigma q\pi_t}{1 - q + \sigma q} = \mu\left(\frac{1 - q + \sigma q}{1 - q + \sigma q}\right) \]

\[ \pi_p - q\pi_p + \sigma q\pi_t = \mu - \mu q + \mu q \]

\[ \sigma^* = \frac{(1 - q)(\mu - \pi_p)}{q(\pi_t - \mu)} \]

\( F \) chooses \( r \) to make \( T \) indifferent between \( H \) and \( L \).

\[ r(1 - \pi_t) + (1 - r)0 = 2 - \pi_t - c_t \]

\[ r^* = \frac{2 - \pi_t - c_t}{1 - \pi_t} \]
For $P$ to prefer $L$ to $H$.

$$EU_P(L) > EU_P(H)$$

$$r(1 - \pi_p) + (1 - r)(0) > 2 - \pi_p - c_p$$

$$\frac{2 - \pi_t - c_t}{1 - \pi_t}(1 - \pi_p) > 2 - \pi_p - c_p$$

$$2 - \pi_t - c_t - 2\pi_p + \pi_t \pi_p + c_t \pi_p > 2 - \pi_p - c_p - 2\pi_t + \pi_t \pi_p + c_p \pi_t$$

$$\pi_p (c_t - 1) > c_t - c_p - \pi_t (1 - c_p) \text{ and } \pi_t < 1$$

$$\square$$

**Proposition 3.15.** There is no equilibrium where $s(T) = L$ and $s(P) = \{L \text{ with probability } \sigma\}$.

**Proof.**

$$Pr\{T|L\} = \frac{Pr\{L|T\}Pr\{T\}}{Pr\{L|T\}Pr\{T\} + Pr\{L|P\}Pr\{P\}}$$

$$= \frac{q}{q + \sigma(1 - q)}$$

$$Pr\{P|L\} = \frac{Pr\{L|P\}Pr\{P\}}{Pr\{L|P\}Pr\{P\} + Pr\{L|T\}Pr\{T\}}$$

$$= \frac{\sigma(1 - q)}{\sigma(1 - q) + q}$$

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F must be indifferent between accepting and rejecting L.

\[
Pr\{T|L\}(\pi_t - \mu) + Pr\{P|L\}(\pi_p - \mu) = Pr\{T|L\}0 + Pr\{P|L\}0
\]

\[
Pr\{T|L\}\pi_t + Pr\{P|L\}\pi_p = \mu(Pr\{T|L\} + Pr\{P|L\})
\]

\[
\sigma^* = \frac{q(\mu - \pi_t)}{(1 - q)(\pi_p - \mu)}
\]

F chooses r to make P indifferent between H and L.

\[
r0 + (1 - r)(1 - \pi_p) = 1 - c_p
\]

\[
r^* = \frac{\pi_p - c_p}{\pi_p - 1}
\]

For probability \( r^* \geq 0, \pi_p < 1 \) and \( \pi_p \leq c_p \).

For T to prefer L to H.

\[
EU_T(L) > EU_T(H)
\]

\[
r(1 - \pi_t) + (1 - r)(0) > 1 - c_t
\]

\[
(1 - c_p)(1 - \pi_t) > (1 - c_t)(1 - \pi_p)
\]

Because \( \pi_t > \pi_p, c_p > c_t, \) and \( \pi_p \leq c_p, \) this inequality does not hold.

**Proposition 3.16.** There is no equilibrium where \( s(T) = H \) and \( s(P) = \{H \text{ with probability } \sigma\} \).
Proof.

\[
Pr\{T|H\} = \frac{Pr\{H|T\}Pr\{T\}}{Pr\{H|T\}Pr\{T\} + Pr\{H|P\}Pr\{P\}} = \frac{q}{q + \sigma(1-q)}
\]

\[
Pr\{P|H\} = \frac{Pr\{H|P\}Pr\{P\}}{Pr\{H|P\}Pr\{P\} + Pr\{H|T\}Pr\{T\}} = \frac{\sigma(1-q)}{\sigma(1-q) + q}
\]

\[F\] must be indifferent between accepting and rejecting H.

\[
Pr\{T|H\}(\pi_t - \mu) + Pr\{P|H\}(\pi_p - \mu) = Pr\{T|H\}0 + Pr\{P|H\}0 \\
Pr\{T|H\}\pi_t + Pr\{P|H\}\pi_p = \mu(Pr\{T|H\} + Pr\{P|H\})
\]

\[
\sigma^* = \frac{q(\mu - \pi_t)}{(1-q)(\pi_p - \mu)}
\]

\[F\] chooses \(r\) to make \(P\) indifferent between H and L.

\[
r(2 - \pi_p - c_p) + (1-r)(1-c_p) = 0
\]

\[
r^* = \frac{c_p - 1}{1 - \pi_p}
\]

By definition \(c_p < 1\) and \(\pi_p \leq 1\). Therefore, \(r^* < 0\).

**Proposition 3.17.** There is no equilibrium where \(s(P) = H\) and \(s(T) = \{H \text{ with probability } \sigma\}\).
Proof.

\[
Pr\{P|H\} = \frac{Pr\{H|P\}Pr\{P\}}{Pr\{H|P\}Pr\{P\} + Pr\{H|T\}Pr\{T\}}
\]

\[
= \frac{1(1-q)}{1(1-q) + \sigma q}
\]

\[
Pr\{H|L\} = \frac{Pr\{H|T\}Pr\{T\}}{Pr\{H|T\}Pr\{T\} + Pr\{H|P\}Pr\{P\}}
\]

\[
= \frac{\sigma q}{\sigma q + (1-q)}
\]

\(F\) must be indifferent between accepting and rejecting \(H\).

\[
Pr\{P|H\}(\pi_p - \mu) + Pr\{T|H\}(\pi_t - \mu) = Pr\{P|H\}0 + Pr\{T|H\}0
\]

\[
Pr\{P|H\}\pi_p + Pr\{T|H\}\pi_t = \mu(Pr\{P|H\} + Pr\{T|H\})
\]

\[
\frac{\pi_p - q\pi_p + \sigma q\pi_t}{1-q + \sigma q} = \mu\left(\frac{1-q + \sigma q}{1-q + \sigma q}\right)
\]

\[
\pi_p - q\pi_p + \sigma q\pi_t = \mu - \mu q + \mu \sigma q
\]

\[
\sigma^* = \frac{(1-q)(\mu - \pi_p)}{q(\pi_t - \mu)}
\]

\(F\) chooses \(r\) to make \(T\) indifferent between \(H\) and \(L\).

\[
r(2 - \pi_t - c_t) + (1-r)(1-c_t) = 1 - \pi_t
\]

\[
r^* = \frac{c_t - \pi_t}{1 - \pi_t}
\]

For probability \(r^* \geq 0, c_t \geq \pi_t\) and \(\pi_t < 1\).
For $P$ to prefer $H$ to $L$.

\[ EU_P(H) > EU_P(L) \]

\[ r(2 - \pi_p - c_p) + (1 - r)(1 - c_p) > 1 - \pi_p \]

\[ \frac{c_t - \pi_t}{1 - \pi_t} - \pi_p \frac{c_t - \pi_t}{1 - \pi_t} - c_p > -\pi_p \]

\[ -\pi_p(c_t + 1) + \pi_t(c_p - 1) - c_p + c_t > 0 \]

By definition $c_p < 1$ and $c_p > c_t$. Therefore, $-\pi_p(c_t + 1) + \pi_t(c_p - 1) - c_p + c_t < 0$. \qed

Cheap Talk: Weak Econocrats and Politicians

**Proposition 3.18.** If $b > \omega$ and $0 < \omega < 1$, the strategies $n(\beta = \omega) = \omega$ and $n(\beta = -\omega) = -\omega$ cannot constitute a perfect Bayesian equilibrium.

**Proof.**

\[ u_T(\beta = \omega, n = \omega) = -|m - b| \]

\[ = -|\omega - b| \]

\[ = -\omega - b \]

\[ u_T(\beta = \omega, n = -\omega) = -|m - b + \beta| \]

\[ = -|\omega - b| \]

\[ = \omega - b \]
For $T$ to choose the truthful, revealing strategy:

\[ u_T(\beta = \omega, n = \omega) \geq u_T(\beta = \omega, n = -\omega) \]

\[ -\omega - b \geq \omega - b \]

\[ -\omega \geq \omega \]

\[ \omega \leq 0 \]

By definition, $0 < \omega < 1$ and $b > \omega$. Therefore, this inequality does not hold. $T$ deviates. \qed

**Proposition 3.19.** If $b > \omega$ and $0 < \omega < 1$, the strategies $n(\beta = \omega) = -\omega$ and $n(\beta = -\omega) = \omega$ cannot constitute a perfect Bayesian equilibrium.
Proof.

\[ u_T(\beta = \omega, n = -\omega) = -|m - b| \]
\[ = -|\omega - b| \]
\[ = \omega - b \]

\[ u_T(\beta = -\omega, n = \omega) = -|m - b| \]
\[ = -| - \omega - b| \]
\[ = -\omega - b \]

\[ u_T(\beta = -\omega, n = \omega) = -|m - b| \]
\[ = -|\omega - b| \]
\[ = \omega - b \]

\[ u_T(\beta = -\omega, n = -\omega) = -|m - b| \]
\[ = -| - \omega - b| \]
\[ = -\omega - b \]

For \( T \) to choose the untruthful, revealing strategy:
\[ u_T(\beta = \omega, n = -\omega) \geq u_T(\beta = \omega, n = \omega) \]
\[ \omega - b \geq -\omega - b \]
\[ \omega \geq -\omega \]
\[ \omega \geq 0 \]
\[ u_T(\beta = -\omega, n = \omega) \geq u_T(\beta = -\omega, n = -\omega) \]
\[ -\omega - b \geq \omega - b \]
\[ -\omega \geq \omega \]
\[ \omega \leq 0 \]

By definition, \( 0 < \omega < 1 \). Therefore, \( u_T(\beta = -\omega, n = \omega) \leq u_T(\beta = -\omega, n = -\omega) \). \( T \) deviates. \( \square \)

**Proposition 3.20.** Suppose that \( \pi \leq 1/2 \), \( b > \omega \), and \( \omega > 0 \). The following strategies and beliefs are a perfect Bayesian equilibrium: \( n(\beta = \omega) = n(\beta = -\omega) = -\omega \), \( m(n = -\omega) = \omega \) and \( m(n = \omega) = -\omega \), \( \Pr(\beta = \omega|n = -\omega) = \pi \).

**Proof.** For \( E \) to choose \( \omega \), his expected utility from full implementation should be higher
than the one from partial implementation.

\[ EU_E(m(n) = \omega) \geq EU_E(m(n) = -\omega) \]
\[ \pi(-2\omega) + (1 - \pi)(0) \geq \pi(0) + (1 - \pi)(-2\omega) \]
\[ -2\omega\pi \geq -2\omega + 2\omega\pi \]
\[ -4\omega\pi \geq -2\omega \]
\[ 2\pi \leq 1 \]
\[ \pi \leq \frac{1}{2} \]

For \( n(\beta) = -\omega \) to be \( T \)'s best response to \( m(n) = \omega \):

\[ EU_T(n = -\omega|m = \omega) > EU_T(n = \omega|m = -\omega) \]
\[ \pi(\omega - b) + (1 - \pi)(\omega - b) > \pi(-\omega - b) + (1 - \pi)(-\omega - b) \]
\[ \omega - b > -\omega - b \]
\[ \omega > 0 \]

By definition, \( 0 < \omega < 1 \). Therefore, \( T \) has no reason to deviate to \( n = \omega \).

**Econocrat with Two Principals**

**Definition 1.** Difference between player \( k \)'s utilities from two policies is \( \Delta_k(\chi_1, \chi_2) = E(W_k(\chi_1) - W_k(\chi_2)) \).

**Definition 2.** For econocrats, \( W_i(\chi_i) = (1 + \delta_i)[-(1 - \chi_i)(y - y_i^*)^2 - \chi_i\pi^2] \). For \( F \), \( W_F(\chi_F) = \ldots \)
\[-(1 - \chi_F)(y - y_E^*)^2 - \chi_F \pi^2. \text{ For } E, W_E(\chi_E) = -(1 - \chi_E)(y - y_E^*)^2 - \chi_E \pi^2.\]

**Definition 3.** Reversion policy for \(F\) is \(\chi^R_F = E(\chi^*|\tilde{m} = 0)\). Reversion policy for \(E\) is \(\chi^R_E = E(\chi^*|\tilde{r} = 0)\).

Using Definitions 1, 2, and 3, I will describe \(F\)’s equilibrium behavior. \(E\)’s equilibrium offer \(\tilde{r}\) will be analogous to this description.

**Proposition B.7.** All else being equal, \(F\) will make \(B_i\) an equilibrium offer \(\tilde{m} \in [m_i, m]\), in which

\[
\bar{m} = \frac{\Delta F(\chi^*_F, \chi^R_F)}{\theta_F}
\]

and

\[
\underline{m} = \max \left[ \frac{(1 + \delta_i)\Delta_i(\chi_i, \chi_F)}{\delta_i \theta_i}, \max \left( 0, \frac{\tau_i \Delta E(\chi_E, \chi_F)}{\tau_E \theta_i} \right) + \frac{\Delta_i(\chi_E, \chi_F)}{\delta_i \theta_i} \right].
\]

**Proof.** The upper bound of the available equilibrium offers of \(F\) is the most \(F\) can afford credibly. That equals to the one-period value of the difference between \(F\)’s offer and his reversion point, divided by the cost of the offer: \(\underline{m} = \frac{\Delta F(\chi^*_F, \chi^R_F)}{\theta_F}\). In other words, whatever \(F\) promises in period 1, he will at most pay the amount of his added utility from policy control.

The lower bound has to be the winning bid against \(B_i\)’s added utility from both independent action and \(E\)’s best offer. The first term, \(\frac{(1 + \delta_i)\Delta_i(\chi_i, \chi_F)}{\delta_i \theta_i}\), refers to the \(B_i\)’s disutility from choosing \(F\)’s ideal policy over her own. Any bargain acceptable for \(B_i\) has to compensate this loss. The second term, \(\max \left( 0, \frac{\tau_i \Delta E(\chi_E, \chi_F)}{\tau_E \theta_i} \right) + \frac{\Delta_i(\chi_E, \chi_F)}{\delta_i \theta_i}\), represents the net change in \(B_i\)’s utility given \(E\)’s best offer. It consists of two parts: the values \(B_i\) attaches to \(E\)’s career reward \(\tilde{r}\) and \(E\)’s ideal policy, respectively. \qed

**Proposition B.8.** So long as there are gains to trade, \(\bar{m} > \underline{m}\), bargains between \(F\) and \(B_i\) will succeed even if \(F\) cares little for the future.
Proof. According to the folk theorem for games between short- and long-run players, repeated nature of the game guarantees reputation costs, which makes principals with any $\delta_F \in (0, 1]$ fulfill their promises. This is because the costs and benefits of defection are deferred to the next period. If $F$ does not pay $\tilde{m}$ for today’s policy in the next period, the next period’s econocrat –same as or different from today’s agent– will not accept an offer from $F$. Thus, so long as $\overline{m} > m$, any $\delta_F \in (0, 1]$ will be enough for bargains between $F$ and $B_i$ to exist. \[\square\]

**Proposition B.9.** Given that both $F$ and $E$ offer some $\tilde{m} \in [\underline{m}, \overline{m}]$ and $\tilde{r} \in [\underline{r}, \overline{r}]$, $B_i$ always accepts the best offer and implements policy accordingly. In period 2, winning bidder fulfills his offer, and $B_i$ accepts. If there was no winning bidder, $B_i$ remains in office and implements $\chi_i$.

*Proof.* As $B_i$ maximizes her utility over one play of the game, she will always play a pure strategy of taking the best offer and implementing policy accordingly. When both $F$ and $E$ play pure strategies and offer some $\tilde{m} \in [\underline{m}, \overline{m}]$ and $\tilde{r} \in [\underline{r}, \overline{r}]$, $B_i$ accepts the best offer that offsets her losses from policy implementation and maximizes her utility function in Equation 3.4. \[\square\]

**Proposition B.10.** If either or both of the principals play mixed strategies, equilibrium results of the game with respect to policies implemented will not be affected.

*Proof.* The game setting allows both principals to play mixed strategies. Suppose that given $\overline{m} > m$, $F$ offers $\tilde{m}$ such that $m \in [\underline{m}, \overline{m}]$ with probability $p$, and $m = 0$ with probability $1 - p$. $F$ will win so long as $E(\tilde{m}) = pm \geq \overline{m}$. As long as $F$’s offer is in line with this constraint, $B_i$ will implement his ideal policy. If $F$’s offer is less than this lower bound, he will be punished. Therefore, any mixed strategy with $pm < \overline{m}$ is strictly dominated by the pure strategy of playing $m = \overline{m}$ in every period. With a strategy of playing $m = \overline{m}$, $F$ gains at least $\overline{m}$ every period, whereas with a strategy of playing $pm < \overline{m}$, $B_i$ stays in office and implements $\chi_i$. 339
Because $\chi_i < \chi_F$, $F$ prefers to avoid this outcome compared to policy control. That means under a mixed strategy any and all realizations of $m$ will be in line with this lower bound. This conclusion implies that mixed and pure strategy equilibria with the same $E(m)$ and $E(r)$ do not differ in terms of the policies implemented.
## Appendix C

Table C.1: List of Countries and IMF Programs, 1978-2008

<table>
<thead>
<tr>
<th>State</th>
<th>Program Start Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>2006</td>
</tr>
<tr>
<td>Angola</td>
<td></td>
</tr>
<tr>
<td>Bahamas</td>
<td></td>
</tr>
<tr>
<td>Bahrain</td>
<td></td>
</tr>
<tr>
<td>Barbados</td>
<td>1982, 1992</td>
</tr>
<tr>
<td>Belarus</td>
<td>1995</td>
</tr>
<tr>
<td>Belize</td>
<td>1984</td>
</tr>
<tr>
<td>Botswana</td>
<td></td>
</tr>
<tr>
<td>Cape Verde</td>
<td>1998, 2002</td>
</tr>
</tbody>
</table>

341
<table>
<thead>
<tr>
<th>Country</th>
<th>Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chile</td>
<td>1983, 1985, 1989</td>
</tr>
<tr>
<td>China</td>
<td>1981, 1986</td>
</tr>
<tr>
<td>Colombia</td>
<td></td>
</tr>
<tr>
<td>Cyprus</td>
<td>1980</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>1993</td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>1991</td>
</tr>
<tr>
<td>Fiji</td>
<td></td>
</tr>
<tr>
<td>Grenada</td>
<td>1979, 1982, 2006</td>
</tr>
<tr>
<td>Country</td>
<td>Years</td>
</tr>
<tr>
<td>-----------------</td>
<td>------------------------------</td>
</tr>
<tr>
<td>Israel</td>
<td>1981, 1991</td>
</tr>
<tr>
<td>India</td>
<td>1981, 1991</td>
</tr>
<tr>
<td>Lebanon</td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td></td>
</tr>
<tr>
<td>Malta</td>
<td></td>
</tr>
<tr>
<td>Country</td>
<td>Years</td>
</tr>
<tr>
<td>-------------------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>Mauritius</td>
<td>1979, 1983, 1985</td>
</tr>
<tr>
<td>Paraguay</td>
<td>2003, 2006</td>
</tr>
<tr>
<td>Portugal</td>
<td>1983</td>
</tr>
<tr>
<td>Singapore</td>
<td>1994</td>
</tr>
<tr>
<td>Slovak Rep.</td>
<td>1994</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>1981, 1983</td>
</tr>
<tr>
<td>Country</td>
<td>Years</td>
</tr>
<tr>
<td>---------------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>South Africa</td>
<td>1982</td>
</tr>
<tr>
<td>Sudan</td>
<td>1979, 1981, 1984</td>
</tr>
<tr>
<td>Suriname</td>
<td></td>
</tr>
<tr>
<td>Syrian Arab Rep.</td>
<td></td>
</tr>
<tr>
<td>Trinidad</td>
<td>1989, 1990</td>
</tr>
<tr>
<td>Tunisia</td>
<td>1986, 1988</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>1995</td>
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<tr>
<td>Vanuatu</td>
<td></td>
</tr>
<tr>
<td>Venezuela</td>
<td>1989, 1996</td>
</tr>
<tr>
<td>Samoa (W. Samoa)</td>
<td>1983, 1984</td>
</tr>
<tr>
<td>(Zaire)</td>
<td></td>
</tr>
</tbody>
</table>
Heckman Selection Model

Following is a simple formal description of the Heckman method (Edwards 2002, 114-116).

\[ y_1 = x\beta_1 + u_1 \]  \hspace{1cm} (6.1)
\[ y_2 = x\beta_2 + u_2 \]  \hspace{1cm} (6.2)

Equation 4.1 is our main concern in which \( y_1 \) refers to the wage. \( y_1 \) is observed only for workers, therefore we do not observe it for the entire population. We observe \( y_1 \) only if \( y_2 \geq 0 \) (Breen 1996, 3). \( y_2 \) corresponds to whether or not a person joins the labor force. Our theoretical intuition tells us that similar variables affect both \( y_1 \) and \( y_2 \). Then the regression model we are running is:

\[ y_1 = x\beta_1 + E(u_1|\text{the sample is selected}) \]  \hspace{1cm} (6.3)
\[ y_1 = x\beta_1 + E(u_1|y_2 \geq 0) \]  \hspace{1cm} (6.4)
\[ y_1 = x\beta_1 + E(u_1|u_2 \geq -x\beta_2) \]  \hspace{1cm} (6.5)

The fact that regression equation for the variable \( y_1 \) depends on the data generating process, violates the basic assumptions of least-squares regression to make unbiased
estimates. Namely, if $u_1$ is correlated with either $x\beta_2$ or $u_2$, then the regression results are biased and inconsistent.

To solve this problem, Heckman treats the selection process as the omitted variable. Using this technique, it is possible to estimate $y_1$ by incorporating information on the selection into the sample ($x\beta_2$) and the correlation between $u_1$ and $u_2$. Using this information, an independent variable that assesses the probability to be selected into sample is generated and plugged into the regression of substantive interest.

The regression results generated by the Heckman’s technique report the coefficient rho ($\rho$), which represents the correlation in the error terms. The sign and significance of rho informs us about whether or not selection bias constitutes a problem, and if yes, its particular impact. A statistically significant chi-square test for rho means that the unobserved variables of the selection stage also affect the outcome stage, and it is necessary to correct for this non-randomness. Interpretation of the sign is a tricky subject. Some authors choose to skip this interpretation altogether due to the sensitive nature of the rho. The error terms in the selection and outcome equations, which the rho coefficient is based on, are dependent on the model specification. That means alternative model specifications change the errors, and hence the rho. While keeping in mind this sensitivity, I present a basic interpretation structure to clarify the relationship, but refrain from using it as a major road sign in my analysis.

If the rho coefficient is statistically significant and positive, then the unobservables in the selection model are positively related to both the selection and the outcome stages. In the wage model, ability might be an unobserved variable that is positively related to both decision to work and earning higher wages (Heckman 1979). When rho is significant and negative, this indicates a more complicated relationship. Simply put, any component of the selection more likely makes the outcome less likely, and vice versa. For example, family fortune might be negatively correlated with selection into the labor force, but once that
choice is made, this same trait might be positively related to dollar wages.
Appendix D

Interview Protocol

- Date and Time
- Location
- Interviewees Code
- Demographic Characteristics of the Interviewee (Age, Education, Career)

Before the Interview:

1. Investigator arrives at the interview location at least 15 minutes before the interview starts.

2. Investigator talks about the research objectives, hands a copy of the thesis proposal to the interviewee, and takes a few minutes to answer interviewees questions and to build rapport with the interviewee. Following excerpt is an example of the way investigator will communicate her research objectives: “The objective of this research is to examine the role of domestic actors in international cooperation. Bureaucrats are central to the analysis of how exactly domestic politics matters. Not only do they participate in every stage of the cooperation process, but they also serve as catalysts that provide communication between the international and domestic levels. While some aca-
A great deal of academic literature has addressed the domestic sources and conditions for international cooperation, such as political regimes, very seldom has focus been placed upon the bureaucrats as intermediaries between international and domestic politics. Through in-depth interviews with a small number (10-12) of economic bureaucrats in Turkey, my research will attempt to shed light upon this topic using experiences of bureaucrats themselves. In doing so I will explore the culture of economy bureaucrats, specifically their perceptions towards development, international cooperation, and their relations with IMF officials. Specific research questions I will address include: How do individuals in bureaucracy define the “public good,” “good governance,” and “economic development”; what policy instruments do they see as appropriate to achieve economic recovery; how does their bargaining with IMF officials affect the conditions attached to the agreement; and what do economy bureaucrats perceive to be the objectives of an IMF agreement? A second objective of my research is to explore the bureaucrats role in implementation of a signed agreement. Much of the literature devoted to implementation of international agreements regards this stage as dependent on the enforcement and monitoring properties of the international organization that is signatory to the agreement. A goal of my research is to illuminate what exactly implementation entails. Specific research questions I seek to answer include: How are policy decisions made in accordance with international agreements; what is the nature of bureaucrats relations with politicians in this process; how do bureaucrats career paths affect their policy decisions? The importance of such an investigation is to expand the work of understanding the domestic context of international cooperation. It seeks to elucidate the role of the economy bureaucracy in bargaining and implementing international financial agreements, constraints they cope with in the process, and strategic alliances they make with politicians and/or their international counterparts.”

3. Investigator will emphasize the independent and academic nature of the research, and explain the reasons for selecting the subject for this research.
4. Investigator will ask for permission to audio tape the interview, remind the subject that at any time recording can be stopped upon his/her request, and inform the subject about the privacy and confidentiality procedures. Audio tapes will not be shared with third parties. No excerpts from the interview will be used if interviewees identity might be inferred from these excerpts. The interviewer will personally transcribe and code the interviews, and develop an identity key that links the subject’s identity to a code number. The code key, audio tapes, and transcriptions will all be stored separately, and tapes and code keys will be destroyed immediately after they are transcribed. At no time will anyone other than the researcher listen to interview audio tapes of study participants.

5. With regard to the potential harm resulting from a breach of confidentiality, the investigator will ask each subject whether the subject wants any documentation linking the subject with the research, and the subject’s wishes will govern. The waiver of documentation of informed consent form will be shown to the subject if he or she wishes to reject such a linkage.

Interview Questions:

1. When you look at the past 30 years of Turkish economic development, how would you describe Turkish experience with international financial institutions?

2. How do you think IMF and World Bank programs have influenced a) the economic policies, b) bureaucratic institutions?

3. Please describe your contact with international bureaucrats in terms of regularity, location, content at your current and past positions?

4. Do you think your experience with international bureaucrats has influenced you in any way?
5. How would you define economic development, economic stability? What is your position on monetary/fiscal policies and good governance?

6. Where would you locate your policy perspective with regard to those of IMF officials?

7. On what topics would you agree or disagree with IMF officials?

8. When formulating your policy perspective, what were your influences (ideas, people, institutions, education)?

9. Do you think the institutional change that you experienced has anything to do with global influences, diffusion of ideas or involvement with international institutions? If yes, in what way?

10. Which domestic institutions are more resistant to international cooperation and which are more sympathetic? Why?

11. Do you think international workshops, your experience at international institutions or your dialogues with your international counterparts at conferences/meetings have any influence on you or your institution?

12. When introducing an innovation in your area, what sort of technical or other help do you get from IMF and World Bank?

13. When bargaining with IMF officials, what kind of strategies did you use? Which instruments were most helpful?

14. What is the role of politicians (ministers and prime minister) at the bargaining stage?

15. What sort of problems do you encounter during the negotiations, both at the domestic and international domains?

16. How do you cope with these problems?
17. Can you foresee whether or not certain provisions of an international agreement would be implemented? If you can, what is your strategy? Do you share this information at the bargaining table or not?

18. At the implementation stage, what is your role compared to politicians?

19. Which of the IMF agreements since 1980 were most successful, and why?

20. Who do you think formulates conditions of IMF agreements: a) bureaucrats, b) politicians, c) IMF?

After the Interview:

1. Investigator will make sure that all important and relevant questions are asked.

2. Investigator will ask the subject whether or not he/she would like to add anything else.

3. Investigator will ask the subject whether or not he/she would recommend anyone else for participation to this research?

4. Investigator will thank the subject for his/her contribution.

**Timeline of Turkish Path to 2000-2001 Crisis**

April 18, 1999: Democratic Left Party (DSP) won the general elections, and came to power as the leading party of a coalition government.

May 1999: Budget deficit was 7 percent of GDP; inflation rate was 63.9 percent (EIU 1999).

August 17, 1999: Nearly 18000 die when two major earthquakes hit western Turkey.
September 1999: Economic growth turned to negative after the earthquake, real GDP fell by 5.1 percent, inflation reached to 67 percent (EIU 2000b).

December 22, 1999: Turkey signed a $4 billion three-year stand-by agreement with the IMF. The program is based on three goals: reduction of the fiscal deficit to decrease inflation, structural reforms (privatization in particular), and a rigid exchange rate regime. The program also aimed to rebuild the Turkish banking sector. Five banks were seized by the Savings Deposit Insurance Fund (SDIF) functioning under the CBT.

January 2000: Turkey adopted a crawling-peg exchange rate regime.


July 2000: Coalition government remained stable despite corruption charges against one of the coalition parties. Inflation rate decreased to 58.6% and the Fund released the third tranche of the 1999 SBA (EIU 2000c).

October 2000: Divisions between the coalition partners and the clash between the prime minister and the president increased political risk.

November 2000: Due to financial turmoil, $7 billion left the country. Irregularities in the banking sector and loss of confidence in government’s ability to implement economic reforms triggered the crisis (EIU 2000d).

December 2000: To offset the capital outflows, IMF agreed to provide an additional Supplemental Reserve Facility (SRF) worth $7.5 billion (EIU 2000d). The SRF was conditional on banking sector reform and privatization.

January 2001: The rift between the coalition partners increased over the pre-conditions of the EU, namely implementation of constitutional and legal reforms. Analysts warn of the elevated risk for a financial crisis that might erupt due to government instability or an
exogenous shock, and lead to “a devaluation and an unraveling of the stabilization program” (EIU 2001d, 8).

February 22, 2001: The IMF program collapsed due to the liquidity crisis that erupted following a clash between the PM and the president. The rigid crawling-peg exchange rate system could not respond to the crisis and a floating exchange rate regime was adopted. As a result, the Turkish lira depreciated by 50% (EIU 2001e, 9).

March 2001: Kemal Derviş, a vice-president at the World Bank, was appointed as the new economy minister. The new CBG was a veteran central banker, Süreyya Serdengeçti. Derviş and his team of econocrats targeted to pass 15 pieces of urgent legislation including the Central Bank law which granted considerable autonomy to the institution. The 1999 program was revised and remained in place until February 2002, when a new three-year SBA was signed.

Turkish GDP contracted by 9.5 percent. Unemployment increased from 6.6 percent to 8.5 percent. The biggest political consequence of the crisis was the November 2002 election results. none of the three parties in the coalition government could get enough votes to enter the parliament. Justice and Development Party (AKP), a relatively new party, came to power.
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