Negative: International Monetary Fund (IMF) - good

By “Coach Vance” Trefethen

***Resolved: The United States Federal Government should substantially reform its banking, finance, and/or monetary policy***

Summary: International Monetary Fund (IMF) is an international organization that takes money from rich countries and loans it to countries that are in financial troubles in times of crisis. AFF believes IMF isn’t helping but actually harming the economic growth of the countries it assists and their plan will withdraw US participation from IMF. NEG here will argue that AFF’s studies are flawed, and we give at least 6 things they got wrong. Correcting for these mistakes leads to more recent and accurate studies proving IMF involvement is good for countries in crisis. We also provide a list of reasons why IMF involvement is perceived as a failure and we show the reasons for those apparent failures have nothing to do with the IMF (in fact, we can turn it by showing that they are often caused by countries failing to do what the IMF told them).

Negative: International Monetary Fund - good 3

HARMS / SIGNIFICANCE 3

1. Fidrmuc and Kostagianni Study finds two major flaws in studies claiming IMF harms economic growth 3

Correcting the studies for both problems 1 and 2 changes the result: IMF has significant positive economic effects 3

Problem 1: Results are biased because countries that get IMF loans are already in bad shape economically 4

Problem 2: Economic benefits of IMF are delayed a few years, so AFF’s studies immediately after the IMF aid are flawed. 4

When time lag studies are conducted and more years are included, IMF always has a big positive economic benefit 5

2. Bird & Rowlands Study finds additional flaws in past studies claiming IMF is harmful 5

Critics overlook 4 other factors making IMF seem harmful when it isn’t: 1) Currency devaluations 2) Countries get IMF aid and don’t follow IMF rules for how it’s used 3) Aid occurring at different points in the economic cycle 4) Non-linearities in growth (growth happens in some countries but not others) 5

Bird & Rowlands find positive economic growth in 2 of the 3 groups of countries studied and no net effect in the 3rd group 6

Bird & Rowland find another confounding factor: Foreign aid. Take that into account, and IMF has high growth effect 6

Countries in really bad shape take longer for IMF benefits to appear 6

Bird & Rowlands summarize the mistakes in past studies. Removing these, IMF has positive effect on economic growth 7

3. Studies find multiple benefits to IMF programs 7

Studies (Gehring & Lang, Vadlamannati) find economic benefits: 1) improved credit rating 2) improved investment 3) higher capital flows 7

Gunduz study finds IMF benefits Lower Income Countries: 1) higher short term economic growth 2) lower fiscal deficits 3) reduced inflation 4) higher investment 8

4. Wishman Study finds positive “catalyst effect” for IMF engagement 8

IMF loans are made with “conditionality” – a country must agree to make economic reforms as a condition of the loan 8

Accepting IMF conditions signals that a country in crisis is serious about making needed economic reforms, despite the political consequences, boosting investor confidence 9

Accepting IMF engagement gives a poor country credibility and boosts investor confidence 10

Past studies of IMF results were flawed because they didn’t consider the catalyst effect and the need to restore investor confidence after a crisis 10

5. What causes “failures” of IMF programs? 10

Failures in one country don’t prove all are bad: Different countries have different outcomes depending on other factors 10

Reverse cause & effect: First 3 years are bad after IMF involvement because investors take IMF involvement as a signal that a country is in really bad shape, and it takes 3 years to turn things around 11

When it fails, it’s because the countries don’t actually comply with IMF policies, not because the policies were bad 11

Pakistan “failed” because they didn’t actually do what the IMF told them (so… who really failed?) 11

Pakistan government mismanages IMF assistance, fails to do what IMF tells them, and then blames IMF for “failure” 12

DISADVANTAGES 12

1. Decline in US global hegemony / influence 12

Link: AFF plan eliminates US influence & participation in the IMF 12

Link: IMF gives the US big influence to get other countries to move toward our policies 12

Impact: World peace & prosperity at risk. US hegemony is key to global peace & prosperity 13

Impact: Apocalyptic consequences without US leadership. Loss of peace, prosperity, democracy, world order 13

2. Prolonged country crisis 14

IMF restores investor confidence 3 years after involvement in a crisis country. Impact: Without it, massive economic problems 14

Negative: International Monetary Fund - good

HARMS / SIGNIFICANCE

1. Fidrmuc and Kostagianni Study finds two major flaws in studies claiming IMF harms economic growth

**Studies claiming harm overlooked 2 key factors: 1) countries seeking IMF help tend to be in bad economic shape already 2) studies only look at short term, when long-term results are better**

Correcting the studies for both problems 1 and 2 changes the result: IMF has significant positive economic effects

Jan Fidrmuc and Stefani Kostagianni 2015. (Fidrmuc - Department of Economics and Finance and Centre for Economic Development and Institutions, Brunel University, London,. Kostagianni- Department of Economics and Finance and Centre for Economic Development and Institutions, Brunel University, London) IMPACT OF IMF ASSISTANCE ON ECONOMIC GROWTH REVISITED, ECONOMICS & SOCIOLOGY Vol 8 No. 3, Sept 2015 <https://bura.brunel.ac.uk/bitstream/2438/11698/3/FullText.pdf> (“endogeneity bias” is the problem of mostly poor countries applying for IMF assistance, so of course more of them will have poorer economic growth)

In this paper, we take a second look at the impact of IMF aid on economic growth. We argue that the insignificant or negative results found by the other studies can be due to two facts: (1) the effect of IMF assistance arrives with a lag rather than immediately, and (2) countries self-select to request IMF assistance, so that the relationship between IMF involvement and economic growth is likely to be subject to endogeneity bias. That puts our approach (and results) in line with those of Clemens et al. (2012). We allow the IMF assistance to affect growth not only contemporaneously but with a lag of up to three years, and use instrumental variables to remove the potential endogeneity bias. Moreover, we select instruments that are of political rather than economic nature – democracy index and temporary membership of the UN Security Council – to minimize the possibility that the instruments reflect the countries’ economic conditions. The results of our analysis add to the recent literature that paints a more positive picture than the previous contributions (see Jackson, 2014, and Galiani et al., 2014). We find that allowing for IMF assistance to affect growth with a lag is enough to obtain a positive impact on growth, even when using only OLS. Moreover, the longer the lag, the greater is the size of the positive effect. Accounting for the likely endogeneity of IMF assistance, furthermore, increases the size of the estimated effect. With these two methodological modifications, we find that receiving IMF assistance increases the annual growth rate of recipient countries by between 4 (with a lag of 1 year) and 7 percent (3 years’ lag).

Problem 1: Results are biased because countries that get IMF loans are already in bad shape economically

**“Reverse causality” – poor growth rates cause them to seek help from the IMF, rather than IMF causing poor growth rates**

Jan Fidrmuc and Stefani Kostagianni 2015. (Fidrmuc - Department of Economics and Finance and Centre for Economic Development and Institutions, Brunel University, London,. Kostagianni- Department of Economics and Finance and Centre for Economic Development and Institutions, Brunel University, London) IMPACT OF IMF ASSISTANCE ON ECONOMIC GROWTH REVISITED, ECONOMICS & SOCIOLOGY Vol 8 No. 3, Sept 2015 <https://bura.brunel.ac.uk/bitstream/2438/11698/3/FullText.pdf>

A plausible reason why the previous literature has found a negative effect of IMF loans on economic growth is the endogeneity of IMF assistance: countries seek IMF help, for the most part, when they already face economic problems or are about to face such problems in the very near future. Therefore, there may be reverse causality between the dummy variable for IMF involvement and the growth rate. To find good instruments, however, is invariably difficult. The instruments have to be uncorrelated with the error term; this can be tested by means of the Sargan statistic: insignificant result suggest that the instruments can be excluded from the main regression. Furthermore, we want to ensure that the instruments are not correlated with the economic hardship that the countries are experiencing at the time of applying for IMF assistance. For example, the debt to GDP ratio or another measure of indebtedness would certainly likely to be a strong predictor of participation in IMF programs. However, this is exactly the kind of self-selection based on econ hardship that we argue may bias the results and which we want to eliminate.

Problem 2: Economic benefits of IMF are delayed a few years, so AFF’s studies immediately after the IMF aid are flawed.

**The “J curve” – things get worse the first few years after IMF (the bottom of the J), then they get much better later on (the straight up part of the J)**

Jan Fidrmuc and Stefani Kostagianni 2015. (Fidrmuc - Department of Economics and Finance and Centre for Economic Development and Institutions, Brunel University, London,. Kostagianni- Department of Economics and Finance and Centre for Economic Development and Institutions, Brunel University, London) IMPACT OF IMF ASSISTANCE ON ECONOMIC GROWTH REVISITED, ECONOMICS & SOCIOLOGY Vol 8 No. 3, Sept 2015 <https://bura.brunel.ac.uk/bitstream/2438/11698/3/FullText.pdf>

Finally, loans disbursed in one year may affect the economy in that year or in the subsequent year or years (see Clemens et al., 2012). The effect may be delayed for a number of reasons. Some loans may be allocated relatively late in the year and therefore cannot have much effect on that year’s economic outcomes. Furthermore, it may take a while for the effect of such loans (and/or the attached conditions) to work its way through the economy. In particular, it is possible for the loans and especially for the attached conditions to be associated with a J-curved effect: the immediate effect is negative, because of the austerity measures required, but the economy rebounds successfully, as the loans and the reforms start having a positive impact on growth.

When time lag studies are conducted and more years are included, IMF always has a big positive economic benefit

Jan Fidrmuc and Stefani Kostagianni 2015. (Fidrmuc - Department of Economics and Finance and Centre for Economic Development and Institutions, Brunel University, London,. Kostagianni- Department of Economics and Finance and Centre for Economic Development and Institutions, Brunel University, London) IMPACT OF IMF ASSISTANCE ON ECONOMIC GROWTH REVISITED, ECONOMICS & SOCIOLOGY Vol 8 No. 3, Sept 2015 <https://bura.brunel.ac.uk/bitstream/2438/11698/3/FullText.pdf> (brackets added. OLS is a statistical tool used to analyze the correlation between data points and a trend line that could link to cause and effect. “Lag the IMF dummy” refers to moving a variable representing the time lag out further beyond the year when IMF got involved and give it more time to take effect)

The IMF effect, when examined contemporaneously, is again insignificant. When we lag the IMF dummy, it always turns out positive and significant. Moreover, the magnitude of the effect is increased considerably compared with the OLS [ordinary least squares] results, indicating that the OLS indeed yields downward-biased estimates. The size of the effect rises as more lags are used and the effect of IMF program participation appears sizeable: growth improves, on average, by between 4 and 7 percent per year. After correcting for the endogeneity bias and allowing for a lagged effect of IMF loans, we see that participation in IMF programs indeed has a positive, and powerful, effect on economic growth.

2. Bird & Rowlands Study finds additional flaws in past studies claiming IMF is harmful

Critics overlook 4 other factors making IMF seem harmful when it isn’t: 1) Currency devaluations 2) Countries get IMF aid and don’t follow IMF rules for how it’s used 3) Aid occurring at different points in the economic cycle 4) Non-linearities in growth (growth happens in some countries but not others)

Graham Bird and Dane Rowlands 2017 (Bird – faculty of the Robert Day School of Economics & Finance, Claremont McKenna College, Claremont Graduate Univ., California. Rowlands – faculty of the Normal Paterson School of International Affairs, Carleton Univ., Canada) The Effect of IMF Programmes on Economic Growth in Low Income Countries: An Empirical Analysis, Feb 2017 , JOURNAL OF DEVELOPMENT STUDIES <https://www.tandfonline.com/doi/full/10.1080/00220388.2017.1279734>

Some critics of the Fund have maintained that the economic policies embedded in IMF programmes are inappropriate for developing countries and rely excessively on compressing domestic aggregate demand. Consequently the implementation of a Fund programme may have a negative effect on economic growth, especially in the short-run.  It is on the basis of such arguments that IMF programmes are sometimes viewed as anti-growth and anti-development. There have also been long-standing debates about the IMF’s promotion of neo-liberal policies (the Washington consensus) and whether these are appropriate for low income countries (Williamson, [1990](https://www.tandfonline.com/doi/full/10.1080/00220388.2017.1279734)). In circumstances where the policies favoured by the IMF focus on demand compression in the short-run and on enhancing aggregate supply in the long-run, the effects on economic growth will vary over time. Matters are made more complex where programmes involve currency devaluation since in principle such a policy has both expansionary and contractionary elements that again vary over time. Even where IMF programmes have a potentially beneficial impact because of the policy reform they incorporate, the potential will only be realised if the policies are implemented. In addition, their impact on growth may depend on the size of the initial economic difficulties encountered at the time of the programme, and on where the country is in terms of its regular pattern of expansion and contraction. When a country is currently in a cyclical trough there will tend to be more scope to increase output quite sharply in the short-term as spare capacity is absorbed. With continued expansion, however, the rate of economic growth may be expected to slow down since further growth will now rely on increasing supply capacity and productive potential. Movement through the cycle therefore further confounds the analysis of IMF effects. In addition to allowing for the stage of the cycle, there may be non-linearities in the relationship between IMF programmes and economic growth depending on the initial conditions encountered at the time of the programme’s inception. A non-linear relationship between IMF programmes and the catalysis of capital flows has been discovered in some studies, with the catalytic effect being strongest and most positive when the economic circumstances are only moderately poor rather than either reasonably good at one extreme, or very bad at the other (Bird & Rowlands, [2009c](https://www.tandfonline.com/doi/full/10.1080/00220388.2017.1279734); Mody & Saravia, [2006](https://www.tandfonline.com/doi/full/10.1080/00220388.2017.1279734)). A similar pattern may exist for the relationship with economic growth.

Bird & Rowlands find positive economic growth in 2 of the 3 groups of countries studied and no net effect in the 3rd group

Graham Bird and Dane Rowlands 2017 (Bird – faculty of the Robert Day School of Economics & Finance, Claremont McKenna College, Claremont Graduate Univ., California. Rowlands – faculty of the Normal Paterson School of International Affairs, Carleton Univ., Canada) The Effect of IMF Programmes on Economic Growth in Low Income Countries: An Empirical Analysis, Feb 2017 , JOURNAL OF DEVELOPMENT STUDIES <https://www.tandfonline.com/doi/full/10.1080/00220388.2017.1279734>

We first examine whether initial conditions, as measured by the estimated probability of participating in a programme, affected the impact of IMF programmes on economic growth. Some of the research on the catalytic effect suggests that IMF programmes encourage private lending to countries with moderate economic difficulties, but not in the extreme cases of either favourable or severe economic conditions (Bird & Rowlands, [2009c](https://www.tandfonline.com/doi/full/10.1080/00220388.2017.1279734); Mody & Saravia, [2006](https://www.tandfonline.com/doi/full/10.1080/00220388.2017.1279734)). To test the possibility of such a non-linear effect we divided the sample into three subsamples in which the estimated probability of signing a Fund agreement was low, medium, or high. While these categories are arbitrary, we tried to select propensity ranges that provided reasonable sample sizes but still retained a degree of sample homogeneity. The PSM results (Table 3) suggest that the growth effect is linearly increasing with the severity of initial conditions. While there is no statistically significant effect for countries with a low signing propensity, those in the medium range exhibit a positive and statistically significant association with higher growth that ranges from 0.17 per cent in the year of signing and increases to over 2 per cent in the second year after signing. For countries in the highest signing propensity sub-sample, the effect is even stronger, ranging between 3.2 per cent and 3.5 per cent.

Bird & Rowland find another confounding factor: Foreign aid. Take that into account, and IMF has high growth effect

Graham Bird and Dane Rowlands 2017 (Bird – faculty of the Robert Day School of Economics & Finance, Claremont McKenna College, Claremont Graduate Univ., California. Rowlands – faculty of the Normal Paterson School of International Affairs, Carleton Univ., Canada) The Effect of IMF Programmes on Economic Growth in Low Income Countries: An Empirical Analysis, Feb 2017 , JOURNAL OF DEVELOPMENT STUDIES <https://www.tandfonline.com/doi/full/10.1080/00220388.2017.1279734>

We then examined whether the growth effect was conditional on the development assistance-to-GNI (aid dependence); an assessment that is complicated by the positive link between aid flows and Fund programmes (Bird & Rowlands, [2007](https://www.tandfonline.com/doi/full/10.1080/00220388.2017.1279734), [2009a](https://www.tandfonline.com/doi/full/10.1080/00220388.2017.1279734); Powell, [2003](https://www.tandfonline.com/doi/full/10.1080/00220388.2017.1279734); Rowlands, [2000](https://www.tandfonline.com/doi/full/10.1080/00220388.2017.1279734); Stubbs, Kentikelenis, & King, [2016](https://www.tandfonline.com/doi/full/10.1080/00220388.2017.1279734)). The results suggest that there is a weak positive effect on growth (in terms of both magnitude and statistical significance) for countries with lower initial aid dependence. In addition, low-aid countries with an IMF programme increase their aid flows faster than non-programme countries, suggesting that growth effects may be linked to catalysis. When we tested sub-samples identified by low and high past aid growth, the results indicated positive and often statistically significant growth effects in both cases, especially for the two-year growth effect of programmes in high aid-growth countries.

Countries in really bad shape take longer for IMF benefits to appear

Graham Bird and Dane Rowlands 2017 (Bird – faculty of the Robert Day School of Economics & Finance, Claremont McKenna College, Claremont Graduate Univ., California. Rowlands – faculty of the Normal Paterson School of International Affairs, Carleton Univ., Canada) The Effect of IMF Programmes on Economic Growth in Low Income Countries: An Empirical Analysis, Feb 2017 , JOURNAL OF DEVELOPMENT STUDIES <https://www.tandfonline.com/doi/full/10.1080/00220388.2017.1279734>

The analysis of programme size (measured as IMF programme funding as a proportion of GDP) provides fairly solid evidence that smaller programmes have a more positive effect on country growth than larger programmes over the entire time horizon of the analysis; countries with relatively larger programmes experience a positive effect only in the second year after an agreement is signed. Further analysis shows that countries with relatively large programme resources have higher signing propensities (and thus presumably worse initial conditions), with a 0.31 average signing probability for large programmes versus 0.24 for smaller ones. So part of the explanation of these results may simply be that programmes in countries with worse conditions attract more IMF resources but that it takes time for the programmes to exert a beneficial impact on economic growth.

Bird & Rowlands summarize the mistakes in past studies. Removing these, IMF has positive effect on economic growth

Graham Bird and Dane Rowlands 2017 (Bird – faculty of the Robert Day School of Economics & Finance, Claremont McKenna College, Claremont Graduate Univ., California. Rowlands – faculty of the Normal Paterson School of International Affairs, Carleton Univ., Canada) The Effect of IMF Programmes on Economic Growth in Low Income Countries: An Empirical Analysis, Feb 2017 , JOURNAL OF DEVELOPMENT STUDIES <https://www.tandfonline.com/doi/full/10.1080/00220388.2017.1279734> (brackets added)

A relatively large number of published empirical studies have suggested that in general the growth effects of IMF programmes are negative, at least in the short-run. But for various reasons these findings may be insecure in the context of LICs [Low Income Countries]. Many of the studies cover all programmes taken together and not just programmes in low-income countries. These studies also vary widely in terms of how effectively they deal with potential selection bias. Theory implies that the effects of IMF programmes on economic growth will be multi-faceted and nuanced. Moreover, programmes that focus on creating macroeconomic stability by managing aggregate demand and are organised under the Fund’s non-concessional lending facilities may be expected to have rather different consequences for economic growth than those that seek to strengthen the supply side. In this paper we have attempted to deal with some of these limitations by focusing narrowly on concessional programmes in low-income countries, and by considering the various contingent factors that may in principle influence the connection between IMF programmes and economic growth. We have used a propensity score matching approach to address the potential problem of selection bias and have based this on a participation model that is specifically designed to capture the circumstances in which LICs turn to the IMF to sign programmes. Our findings are inconsistent with the claim that concessional IMF programmes in LICs are based on ‘austerity’ and on compressing aggregate demand, although we also find that there are important differences between concessional and non-concessional programmes. Taking contingent factors into account, we discover that concessional IMF programmes in LICs are generally associated with a subsequent significant increase in the rate of economic growth; a conclusion that holds up when tested for robustness.

3. Studies find multiple benefits to IMF programs

Studies (Gehring & Lang, Vadlamannati) find economic benefits: 1) improved credit rating 2) improved investment 3) higher capital flows

Tahir Ijaz, Dr. Hafiz Zafar Ahmed and Abdul Majid Khan 2019 (Ijaz – PhD candidate, Pakistan Study Centar, Univ. of Punjab, Pakistan. Ahmed – PhD; Assoc. Professor, Hailey College of Commerce, Univ. of Punjab, Pakistn. Khan – Lecturer, Institute of Education & Research, Univ. of Punjab, Pakistan) JOURNAL OF THE RESEARCH SOCIETY OF PAKISTAN, “Contextualization of IMF in Pakistn: A Discourse Analysis of Print Media” <http://pu.edu.pk/images/journal/history/PDF-FILES/19_56_2_19.pdf>

Gehring and Lang found that IMF program does not project a negative economic outlook of client country, rather it cushions against worsening credit worthiness of client country. It was further stressed that credit rating agencies consider IMF program as positive, especially in situation where strong reforms are committed by client country. Vadlamannati also argued in favour of IMF program’s ability to improve investor sentiment and found that countries participating in IMF program with performance conditions witness an improvement in investor sentiment. It was also noted that investor sentiment in countries suffering from currency, banking, or debt crises is revived after participating in IMF conditional program. The study also indicated that investor sentiment is damaged, where participation in IMF program lead towards political strife in the client country. Thus, it was concluded that investor sentiment was contingent on commitment of client country to policy reforms conditioned by IMF and IMF conditional programs could actually improve capital flows to the client country.

Gunduz study finds IMF benefits Lower Income Countries: 1) higher short term economic growth 2) lower fiscal deficits 3) reduced inflation 4) higher investment

Tahir Ijaz, Dr. Hafiz Zafar Ahmed and Abdul Majid Khan 2019 (Ijaz – PhD candidate, Pakistan Study Centar, Univ. of Punjab, Pakistan. Ahmed – PhD; Assoc. Professor, Hailey College of Commerce, Univ. of Punjab, Pakistn. Khan – Lecturer, Institute of Education & Research, Univ. of Punjab, Pakistan) JOURNAL OF THE RESEARCH SOCIETY OF PAKISTAN, “Contextualization of IMF in Pakistn: A Discourse Analysis of Print Media” <http://pu.edu.pk/images/journal/history/PDF-FILES/19_56_2_19.pdf>

Gündüz also found that IMF programs are beneficial for the lower income countries having prior macroeconomic imbalances or facing severe external shocks. It was found that countries with IMF programs attain higher short term economic growth, better reserve coverage, lower fiscal deficit, and reduced inflation. Woo also found that participation in IMF program with strict conditionality leads towards better foreign investment inflows in the client country.

4. Wishman Study finds positive “catalyst effect” for IMF engagement

IMF loans are made with “conditionality” – a country must agree to make economic reforms as a condition of the loan

Marius Wishman 2016 (master’s degree candidate in political science at Arctic University of Norway) May 2016 Master’s Thesis: “Not so Bad After All? The Effect of IMF Conditions on Investor Perceptions” <https://pdfs.semanticscholar.org/ff0f/82ce1a2ed238b51d2ece907ea1d3104e59ec.pdf?_ga=2.101742729.921226366.1581992669-1142273417.1581992669>

When a government approaches the IMF in the hopes of obtaining a loan, most of the Fund programs that are available are conditional upon economic policy reform. As such, the agreements contain a set of conditions that the country must fulfill in order to be eligible to draw from their quota (i.e. loan). What conditions become part the agreement is the result of negotiations between the Fund and the government in question. Based on when and how the IMF monitors compliance with the conditions there are three types of IMF conditions: prior action conditions, performance criteria conditions and structural benchmark conditions (IMF 2015b).

Accepting IMF conditions signals that a country in crisis is serious about making needed economic reforms, despite the political consequences, boosting investor confidence

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I will argue that accepting IMF conditions can significantly enhance the credibility of reforms for a crisis-ridden country. IMF conditions are associated with large political costs. A government that is not committed to reform would not be willing to risk such large costs by signing a large number of IMF conditions. Research has shown that economic policy reform is particularly costly for a government during severe economic crisis (Dreher & Gassebner 2012; Krugman 1998). Serious economic crisis is characterized by deep crisis in the banking sector, which often leads to exchange rate, inflation and default crisis (Reinhart 2009). Each IMF condition that a crisis-ridden country has should send an even more credible signal than in countries without such a deep economic crisis, due to the increased costs associated with having IMF conditions during a severe economic crisis. Indeed, Diaz-Cassou, Garcia-Herrero & Molina (2006) found that only countries that had experienced sovereign, banking or exchange rate crisis witnessed an increase in FDI as a result of IMF programs. The political costs associated with IMF conditions work in two ways, ex ante and ex post . Ex ante, political costs work as a sunk costs mechanism that the government and its leading politicians, incur when pursuing and signing an IMF agreement (Woo 2013, 298). A politician who is considering advocating an IMF agreement knows that the conditions the Fund is likely to demand are unpopular with the voters. Mass protest, strikes and riots related to IMF conditions are common and examples include the Dominican Republic, Egypt, Ghana, Indonesia, Jamaica and more recently in Greece and Portugal in relation to the 2008 financial crisis (Vreeland 2003; Dreher & Gassebner 2012; Caffentzis & Federici 2001; BBC 2013; The Guardian 2013). For instance, Dreher and Gassebner (2012) find that countries participating in IMF programs face massive resistance in the form of anti-government demonstrations and strikes. That governments seek to avoid IMF loans is well documented, as countries have been found to prefer private capital market loans with higher interest rates in order to avoid Fund conditionality (Merchesi & Thomas 1999, 114; Bird 1995, 58). An illustrating example of how cautious politicians are of entering IMF agreements can be seen in the case of Nigerian president Shehu Shagari in 1982-1983. Nigeria was in a deep economic crisis following a drop in oil prices in 1981-1982, and had one of the worst balance of payments deficits in the world (Vreeland 2003, 38; The New York Times 1983a; 1983b; 1984). In 1982, hoping to avoid vehemently opposed conditions, Shagari had signed an unconditional IMF loan that proved insufficient to address the crisis (Vreeland 2003, 36). Despite Nigeria’s dire need, Shagari turned down two IMF arrangements because of specific conditions that were thought to have dashed his chances of reelections later the same year (Vreeland 2003, 37; The New York Times 1983a; 1983b; 1984). Furthermore, the political costs of IMF programs have been shown to be particularly high prior to elections, and programs frequently break down in such periods (Dreher 2003; 2004). Fearing that IMF programs hurt government’s re-election chances, fewer programs are concluded prior to elections (Dreher 2004). In several cases, IMF reforms have caused enough popular dissent to lead to government crisis and political instability (Dreher & Gassebner 2012). In addition to popular dissent, powerful and traditionally privileged groups who risk losing their privileged position if reforms are implemented are also likely to lobby against any Fund conditionality that threaten their status quo bias (Vreeland 1999, 15; Mayer & Mourmouras 2005, 4). The ex-ante costs make IMF programs a risky policy to pursue and only governments who are seriously committed to reform would do so. Additionally, the ex-ante political costs vary according to the number, scope and focus of IMF conditions (Woo 2013, 299). Thus, theory suggests that signing an IMF agreement with many tough conditions would send a powerful signal to the broader international investor community that the government is serious enough to undertake politically costly reform measures.

Accepting IMF engagement gives a poor country credibility and boosts investor confidence

Marius Wishman 2016 (master’s degree candidate in political science at Arctic University of Norway) May 2016 Master’s Thesis: “Not so Bad After All? The Effect of IMF Conditions on Investor Perceptions” <https://pdfs.semanticscholar.org/ff0f/82ce1a2ed238b51d2ece907ea1d3104e59ec.pdf?_ga=2.101742729.921226366.1581992669-1142273417.1581992669>

My results show that while economic crisis leads to a lingering decrease in Institutional Investor rating, even three years post crisis, participation in an IMF program containing prior action conditions and performance criteria conditions, can not only halt this continuing slide in investor perceptions, but even turn the tide entirely. A country having the maximum number of prior action conditions per quarter observed in the sample, can expect an impressive 12-point increase in Institutional Investor rating. Likewise, a country having the maximum amount of performance criteria conditions per quarter witnesses a five-point increase in Institutional Investor rating.

Past studies of IMF results were flawed because they didn’t consider the catalyst effect and the need to restore investor confidence after a crisis

Marius Wishman 2016 (master’s degree candidate in political science at Arctic University of Norway) May 2016 Master’s Thesis: “Not so Bad After All? The Effect of IMF Conditions on Investor Perceptions” <https://pdfs.semanticscholar.org/ff0f/82ce1a2ed238b51d2ece907ea1d3104e59ec.pdf?_ga=2.101742729.921226366.1581992669-1142273417.1581992669>

I argue that the inconsistent results of previous empirical research into the catalytic effect have been caused by a failure to examine in detail how conditionality sends signals to investors. After suffering a severe economic crisis, investor sentiments will have suffered. As such, restoring faith in the country’s economy and in the competence of its government becomes paramount.

5. What causes “failures” of IMF programs?

Failures in one country don’t prove all are bad: Different countries have different outcomes depending on other factors

Tahir Ijaz, Dr. Hafiz Zafar Ahmed and Abdul Majid Khan 2019 (Ijaz – PhD candidate, Pakistan Study Centar, Univ. of Punjab, Pakistan. Ahmed – PhD; Assoc. Professor, Hailey College of Commerce, Univ. of Punjab, Pakistn. Khan – Lecturer, Institute of Education & Research, Univ. of Punjab, Pakistan) JOURNAL OF THE RESEARCH SOCIETY OF PAKISTAN, “Contextualization of IMF in Pakistn: A Discourse Analysis of Print Media” <http://pu.edu.pk/images/journal/history/PDF-FILES/19_56_2_19.pdf>

On account of sluggish economic growth resulting from IMF, it has been argued that different countries have different implications of IMF program, where lower income countries witness a positive impact on economic outcomes, while middle income countries could withstand negative impact of IMF program on economic growth. Bauer et al. also found that implications of IMF program could be different for different countries, where democracies witness more positive outcomes compared to autocracies.

Reverse cause & effect: First 3 years are bad after IMF involvement because investors take IMF involvement as a signal that a country is in really bad shape, and it takes 3 years to turn things around

Marius Wishman 2016 (master’s degree candidate in political science at Arctic University of Norway) May 2016 Master’s Thesis: “Not so Bad After All? The Effect of IMF Conditions on Investor Perceptions” <https://pdfs.semanticscholar.org/ff0f/82ce1a2ed238b51d2ece907ea1d3104e59ec.pdf?_ga=2.101742729.921226366.1581992669-1142273417.1581992669>

When I examine the disaggregated results of prior action conditions only, the interaction effect becomes positive and statistically significant (at the 10% level). In line with my second hypothesis, this suggests that three years post crisis, prior action conditions lead to an increase the Institutional Investor rating. Notice that the individual effect of the crisis variable is still negative and significantly different from zero at the 5% level. This suggests that when prior action conditions per quarter are set equal to zero, the impact of crisis (three years post) on change in Institutional Investor rating is negative. Thus, in the absence of prior action conditions, investors react negatively even in the three years post crisis period. Interestingly, the results in Table 4 also show that prior action conditions per quarter, when crisis variable is set equal to zero, is negative and significant at the 5% level. This means that prior action conditions on their own, in the absence of severe economic crisis, leads to a downgrading of investor rating. This is a plausible scenario as most of the short-term institutional investors see participating in an IMF program as a signal of liquidity crisis in the first place.

When it fails, it’s because the countries don’t actually comply with IMF policies, not because the policies were bad

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This begs the question: If IMF indeed prescribes the correct medicine, why has it not had a better impact on the patients? There are two answers to this question; critics say the IMF prescribes the wrong medicine. While the Fund itself claims that governments have lacked political will to reform (Vreeland 2003, 5). Low compliance rates with IMF conditionality may imply that the Fund has a point (Beveridge & Kelly 1980; Dreher 2006). Dreher & Rupprecht (2007) even found that IMF programs had a negative net effect on market oriented reforms, while Bookmann & Dreher (2003) found that the programs of the IMF had no effect on a measure of economic freedom, both among important goals of such programs. Low compliance rates contribute to this, but there is also the problem that governments have incentives to implement reforms to get loans, only to then revers these reforms to placate domestic opposition and recreate structural imbalances in order to get another IMF loan (Dreher & Rupprecht 2007, 322).

Pakistan “failed” because they didn’t actually do what the IMF told them (so… who really failed?)

Tahir Ijaz, Dr. Hafiz Zafar Ahmed and Abdul Majid Khan 2019 (Ijaz – PhD candidate, Pakistan Study Centar, Univ. of Punjab, Pakistan. Ahmed – PhD; Assoc. Professor, Hailey College of Commerce, Univ. of Punjab, Pakistn. Khan – Lecturer, Institute of Education & Research, Univ. of Punjab, Pakistan) JOURNAL OF THE RESEARCH SOCIETY OF PAKISTAN, “Contextualization of IMF in Pakistn: A Discourse Analysis of Print Media” <http://pu.edu.pk/images/journal/history/PDF-FILES/19_56_2_19.pdf>

Considering the effectiveness of IMF programs, each programs levies same conditionality and asks host country to bring structural reforms. The government transfers the hardships to the general population and then fails to implement structural reforms, which again result in another IMF program. Each IMF program brings inflation, contraction in economic growth, higher interest rate, increased taxation, fuel price hikes, and the like. The people of Pakistan are given this bitter pill with promise that this program would be last IMF program and after that Pakistan would follow an unprecedented growth trajectory. But each government fails to honour its commitment to the people of Pakistan.

Pakistan government mismanages IMF assistance, fails to do what IMF tells them, and then blames IMF for “failure”

Tahir Ijaz, Dr. Hafiz Zafar Ahmed and Abdul Majid Khan 2019 (Ijaz – PhD candidate, Pakistan Study Centar, Univ. of Punjab, Pakistan. Ahmed – PhD; Assoc. Professor, Hailey College of Commerce, Univ. of Punjab, Pakistn. Khan – Lecturer, Institute of Education & Research, Univ. of Punjab, Pakistan) JOURNAL OF THE RESEARCH SOCIETY OF PAKISTAN, “Contextualization of IMF in Pakistn: A Discourse Analysis of Print Media” <http://pu.edu.pk/images/journal/history/PDF-FILES/19_56_2_19.pdf>

It was noted that every incumbent government seeks help from IMF, and assures that bad days would be over after completion of IMF program. IMF program, on the other hand, requires Pakistan to devalue its currency, raise interest rate, increase revenues and reduce expenditures, which result in sluggish economic growth, unemployment, inflation, and fuel price hikes. All of these negatively affect wellbeing of people in the country resulting in a negative contextualization of IMF. However, IMF may not be to blame because it supports Pakistan to avert immediate default and government of Pakistan fails to implement structural reforms required to turn around the economy because of political face saving. It was noted that current government is no different than previous ones and it does not have a long term vision for fiscal adjustments of Pakistan.

DISADVANTAGES

1. Decline in US global hegemony / influence

Link: AFF plan eliminates US influence & participation in the IMF

That’s the whole goal of their plan.

Link: IMF gives the US big influence to get other countries to move toward our policies

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The influence of the United States in the Fund is not surprising considering it pays by far the largest quota and thus has the biggest voting share of all member countries (see chapter 2.4). How the United States chooses to wield this influence in relation to IMF loans, and in turn how this affects the catalytic effect, however is less obvious. Nonetheless, it is well documented in the literature (Thacker 1999; Barro & Lee 2003; Dreher & Jensen 2007; Dreher, Sturm & Vreeland 2009, 2015; Midgaard, Vadlamannati & de Soysa 2013; Stone 2002; 2004). Just as a neorealist theoretical perspective of international politics predicts, the political concerns of major powers, the United States in particular, overrule the institutions own goals. Even if economic growth in developing countries, and therefor punishing non-compliance according to performance, is in the long-term interest of major powers, this concern is trumped by short-term political concerns (Stone 2004). IMF programs and conditionality can essentially be used as tools of the major power in two ways, either as a carrot or as a stick. Pakistan is a telling example on both accounts. Following a nuclear arms test their IMF program was suspended, only to have the program restored when they agreed to support the United States operations in Afghanistan in 2001 (Stone 2004, 577). Other researcher have confirmed that countries that are gravitating towards the United States politically, as measured by voting patterns in the United Nation, are rewarded with a greater chance of receiving IMF loans, and perhaps not surprisingly vice-versa for countries moving away from them has (Thacker 1999). Due to the United States’ influence of the Fund, countries of strategic importance to the United States receive larger loans with fewer and lighter conditions, and punishment for non-compliance has been shown to be less strict (Barro & Lee 2003; Dreher & Jensen 2007; Dreher, Sturm & Vreeland 2009, 2015; Midgaard, Vadlamannati & de Soysa 2013; Stone 2004).

Impact: World peace & prosperity at risk. US hegemony is key to global peace & prosperity

Capt. M. V. Prato 2009 (United States Marine Corps,Command and Staff College, Marine Corps Combat Development Command,Marine Corps University) “The Need for American Hegemony” http://www.dtic.mil/dtic/tr/fulltext/u2/a508040.pdf

The world witnessed a vast shift in the polarity of geopolitics after the Cold War. The United States became the world’s greatest hegemon with an unequalled ability to globally project cultural, political, economic, and military power in a manner not seen since the days of the Roman Empire. Coined the “unipolar moment” by syndicated columnist Charles Krauthammer, the disparity of power between the U.S. and all other nations allows the U.S. to influence the world for the mutual benefit of all responsible states. Unfortunately, the United States is increasingly forced to act unilaterally as a result of both foreign and domestic resentment to U.S. dominance and the rise of liberal internationalism. The United States must exercise benevolent global hegemony, unilaterally if necessary, to ensure its security and maintain global peace and prosperity.

Impact: Apocalyptic consequences without US leadership. Loss of peace, prosperity, democracy, world order

Brook Manville 2018 (principal of Brook Manville LLC, consulting on strategy and organization) 14 Oct 2018 “Why A Crumbling World Order Urgently Needs U.S. Leadership” FORBES <https://www.forbes.com/sites/brookmanville/2018/10/14/why-a-crumbling-world-order-urgently-needs-u-s-leadership/#2bb8912f2e61> (brackets added)

The botanical metaphor in [Brookings Institution Senior Fellow Robert] Kagan’s book title began our recent conversation. “We’ve been living in a tranquil garden of largely peaceful practices and liberal expectations across much of the world, ignoring the dark forces of jungle multiplying under the rocks. If we don’t defend civilization’s cultivation—especially American’s guarantee of peace and economic integration across the world—the toxic creatures and weeds will roar back.” Thus [China’s determined military rise](https://www.economist.com/leaders/2012/04/07/chinas-military-rise), [Russia’s continuing aggressions](https://mwi.usma.edu/countering-russian-aggression-twenty-first-century/), [fiery authoritarians on the march in so many once democratic countries](https://www.nytimes.com/2018/05/08/opinion/democracy-authoritarian-constitutions.html). As [Brookings Institution Senior Fellow Robert] Kagan continued, “[Trump has been damaging the system](https://www.brookings.edu/blog/order-from-chaos/2018/07/20/to-destroy-the-liberal-world-order-trump-putin-and-the-imperiled-trans-atlantic-alliance/)—he too seems to have forgotten what good it has delivered—but actually America’s desire for maintaining the global order has been diminishing for years. After [the dissolution of the Soviet empire in the 1990s](https://history.state.gov/milestones/1989-1992/collapse-soviet-union), people talked about [‘the end of history”](https://en.wikipedia.org/wiki/The_End_of_History_and_the_Last_Man)—that America didn’t have to worry anymore about war or aggression. History doesn’t end, it simply paused. The ugliest aspects of human nature are surging again.”  
**Vanishing Leadership, Vanishing Peace**  
Kagan’s apocalyptic message, repeated [in other recent writings](https://www.washingtonpost.com/opinions/welcome-to-the-jungle/2018/10/09/0f8ffb58-cbc5-11e8-a3e6-44daa3d35ede_story.html?utm_term=.f6e9637dc215), is lucid and terrifying, all the more devastating for its relentless use of history. It’s a footnoted plea that “we’ve seen this movie before.” He reminds us that Americans have frequently turned away from defending world order, with regrettably familiar outcomes: to be dragged in later at greater cost (e.g. [helping to stop Hitler earlier might have prevented World War II](https://www.theatlantic.com/national/archive/2013/07/the-debate-behind-us-intervention-in-world-war-ii/277572/)); or, simply hoping that “the problem would go away,” to watch it get ten times worse (e.g. [Obama’s policy in Syria](https://foreignpolicy.com/2016/12/29/obama-never-understood-how-history-works/)). Kagan acknowledges that America has sometimes misstepped (e.g. Viet Nam, Iraq), but he still argues that overall our foreign engagement has produced more peace and prosperity than not. “History shows,” he summarized, “that world order has never been achieved without some constructive force to keep the peace. The relative harmony and fair play we’ve created in the modern world will vanish if the U.S. forsakes international leadership.”

2. Prolonged country crisis

IMF restores investor confidence 3 years after involvement in a crisis country. Impact: Without it, massive economic problems

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Although I find no evidence to back my first hypothesis, the results support my second hypothesis, which states that Institutional Investor sentiment in a crises ridden country improves, although three years after the crises, with the number of prior action and performance criteria conditions attached. In times of financial crises, restoring investor confidence becomes essential to prevent massive macroeconomic problems. Thus, crises ridden countries are under tremendous pressure to restore international investor confidence. Accepting IMF conditions, as discussed in the previous chapter, can enhance credibility of a crisis ridden government’s actual commitment to economic policy reforms.