

***“The Silent Revolution:” Professional Characteristics, Sympathetic Interlocutors  
and IMF Lending***

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**Abstract**

This paper examines the lending behaviour of the International Monetary Fund (IMF or Fund). In contrast to the existing literature, which attributes IMF lending to powerful member state interests and various economic determinants, I argue that the emergence of actors with shared policy beliefs within the Fund and the borrowing country critically shapes the Fund’s willingness to “supply” a loan of a particular size as well as a government’s willingness to “demand” it. Similar professional training and work experience are critical factors, as they foster close ties between the Fund staff and their domestic interlocutors as well as shared policy beliefs. The Fund staff seek out sympathetic interlocutors due to normative biases and career advancement incentives, while sympathetic interlocutors seek out the Fund because they desire assistance in their domestic political struggles. I assess these arguments using a new dataset capturing the professional characteristics of IMF staff and emerging market and developing country officials. The evidence strongly suggests that sympathetic interlocutors matter: larger loans are extended to countries where government officials and the Fund staff share similar professional training.

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What explains the behaviour of international organizations (IOs)? Is IO behaviour driven purely by powerful member states? Do the attributes of countries where IOs operate influence their behaviour? This paper seeks to provide some answers to these questions by examining the lending behaviour of the International Monetary Fund (IMF or Fund).

The IMF is conventionally thought of as a “technocracy,” with its lending decisions shaped largely by the severity of the economic problems that lead governments to approach the IMF for assistance.<sup>1</sup> Some argue, however, that the IMF is also a “political” organization, with powerful member states, particularly the United States, shaping lending in order to further their financial and foreign policy interests.<sup>2</sup> Yet the IMF is not influenced purely by “technocratic” and “political” factors, rather I argue it, like other IOs, is also shaped by the collectively shared beliefs and institutional incentives that shape staff behaviour. A critical feature of IMF programs is that they are largely a product of the staff, especially in what Randall Stone describes as “ordinary countries in ordinary circumstances.”<sup>3</sup> This observation suggests that we need to disaggregate the Fund as a unit and investigate how the staff go about approaching this important task. This paper therefore offers an alternative to conventional approaches that draw on “thin” assumptions about technocratic concerns or that point powerful states alone in explaining IMF behaviour.

The argument I offer seeks to synthesize rationalist and constructivist insights. The staff, I argue, are motivated by career advancement incentives to negotiate large programs that are likely to be successful. Success in turn often depends on the ability of the staff to find and work with sympathetic domestic interlocutors who embrace their policy goals. The staff’s policy goals are in turn significantly shaped by their common professional training, which tends to be principally at Anglo-American economic departments. This training helps

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<sup>1</sup> Drazen 2002; Martin 2006:142.

<sup>2</sup> Broz and Brewster Hawes 2006; Oatley and Yackee 2004; Stone 2002.

<sup>3</sup> Stone 2007.

to instill the Fund staff with a particular way of viewing economic problems, the kinds of information necessary to resolve them, and the range of appropriate policy responses. As a result, the Fund staff tend to seek out interlocutors whose academic credentials, professional training, and work experience have instilled similar beliefs.

To put it differently, the staff seek out those officials who share their “constitutive norms,” with these intersubjective beliefs comprising the “common knowledge” that can create a “focal point” around which the negotiating positions of the Fund and their domestic interlocutors can converge. Employing the Fund’s language, interlocutors with similar professional characteristics are likely to be seen as having the necessary “political will” to push through reforms and greater “ownership” over the program commitments. Other things being equal, one would expect the Fund to reward such interlocutors with greater financial assistance.

This paper is not the first to suggest the importance of sympathetic interlocutors for the IMF. Indeed, James Boughton, the Fund’s official historian, suggests that a “silent revolution” in emerging markets and developing countries, in which individuals with similar professional characteristics as the Fund staff emerged in top policymaking positions, helped to underpin successful policy reform efforts in the 1980s.<sup>4</sup> Yet much of the evidence tends to be anecdotal and impressionistic at best, unsupported by systematic and cross-national analysis. Although some scholars (see below) have suggested that borrower attributes may shape a country’s “demand” for a loan, little work has been done on how such attributes may shape the Fund’s willingness to “supply” it.<sup>5</sup> This paper seeks to rectify this shortcoming by assessing how the configuration of the Fund’s domestic interlocutors can influence the size of the loan it extends to borrowers.

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<sup>4</sup> Boughton 2001.

<sup>5</sup> Gould 2003:568 makes a similar observation.

The emergence of interlocutors sympathetic to the Fund may also shape the domestic politics surrounding a country's decision to "demand" a loan from the Fund. Some scholars argue that certain borrower attributes may lead government officials to approach the Fund for a loan in order to use conditionality to push unpopular policies past domestic opponents. But these accounts typically place exclusive emphasis on the role of "visionary leaders" or reform-minded chiefs of government (COG), discounting and marginalizing the importance of other reform-minded officials.<sup>6</sup> While there may be some cases in which visionary leaders do play a critical role, there are also many cases where the COG is uncertain of or even opposed to the idea of accepting an IMF loan.

This paper therefore seeks to refine these arguments. I suggest COGs commonly confront two broad stylized alternatives when faced with an economic crisis: a "nationalist" alternative that attributes blame for crises on the vagaries of unfettered markets and suggests controls, the threat of default, or the formation of debtor cartels to manage crisis pressures, and a "liberal" alternative, often promoted by Anglo-American-trained economists, that emphasizes domestic sources of crises and advocates adjusting policies, stabilizing and liberalizing the economy, and behaving as "responsible debtors" to deal with crisis pressures. Assuming that default is ruled out as an option, even the most ardent nationalist will likely eventually be forced to consent to entering negotiations with the Fund. What then often helps "tip" policy in the direction preferred by liberals is that these officials, because they tend to be sympathetic to the Fund's policy goals, typically find it easier than nationalists to reach an agreement. Liberals recognize that this puts them in a position of strength vis-à-vis nationalists, as it enables them to draw on their close connections with external financial representatives and to present themselves, their preferred policies, and an IMF program to the COG as the "only way out."

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<sup>6</sup> On "visionary leaders," see Williamson 1993.

Sympathetic interlocutors and the Fund staff are therefore locked in a kind of symbiotic relationship. The Fund staff seek out sympathetic interlocutors because they share a similar normative orientation and are perceived to be more likely to deliver successful programs, while sympathetic interlocutors seek out the Fund because they anticipate an agreement can be reached that can then aid them in their domestic political struggles. I assess these arguments using a new dataset that captures the professional training characteristics of over 300 IMF staff members and nearly 1,000 officials from 44 emerging market and developing country officials. The evidence strongly suggests that sympathetic interlocutors matter: larger loans are extended to countries where government officials and the Fund staff share similar professional training.

The rest of the paper proceeds as follows. The first section outlines the importance of sympathetic interlocutors. The second section provides the empirical analysis. The final section explores implications.

### **The Argument**

IMF programs are a product of a joint decision between the Fund and the borrowing country. It thus represents both the Fund's willingness to supply a loan of a particular size and the government's demand for it. There are a number of reasons to expect that the presence of sympathetic domestic interlocutors should shape IMF lending.

#### **The "Supply Side"**

Scholars conventionally treat the Fund as a unitary actor, failing to distinguish systematically between the roles and objectives of the Fund staff, management (the Managing Director and Deputy Managing Directors), and member state representatives on the Executive Board. The critical feature of IMF programs is that they are largely a product of the staff.

Due to the broadening of the IMF's membership and financing activities, the size of the Fund staff has grown significantly over time from about 500 in 1962 to 2,005 in 2007.<sup>7</sup> The staff are housed in various functional departments and regionally-organized "area" departments, all of which have undergone several reorganizations in the Fund's history. The IMF currently has eight functional departments: Finance (FIN), Fiscal Affairs, IMF Institute, Legal, Monetary and Capital Markets, Policy Development and Review, Research (RES), and Statistics. Although functional department staff have some input in the design and size of programs, they remain the primary responsibility of the area department staff. I therefore focus my attention on these departments.

The area departments have been reorganized on several occasions to reflect the broadening of the IMF's membership over time. Currently, there are five area departments: African (AFR), Asia and Pacific (APD), European (EURO), Middle East and Central Asia (MCD), and Western Hemisphere (WHD). Initially, from 1946 – 1949, most of the staff that would later comprise the area departments were organized into the RES and Operations Department (OPS). In 1950, the responsibilities of OPS were reduced and its staff reorganized, with some moving to two new area departments, the European and North American Department (EURNA) and the Latin American and Middle and Far Eastern Department (LAMEFE), while others remained in what was renamed as the Treasurer's Department (now the Finance Department). The Fund's area departments have since been organized as follows. From 1953 to 1992 the staff were divided into the European, WHD, Middle Eastern (MED), and Asian departments (ASIA). An African Department (AFR) was added in 1961. In 1992, EUR was reorganized into the European I Department (EUR1), responsible for Western and Eastern Europe, and the European II Department (EUR2), responsible for countries of the former Soviet Union. From 1992 to 1997 ASIA was

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<sup>7</sup> These data exclude administration staff. See de Vries 1985:1010; IMF 2007:61.

reorganized into the Central Asia Department (CAD) and the South East Asia and Pacific Department (SEAP). In 1997, SEAP and CAD were merged to create the Asia and Pacific Department (APD). In 2003, EUR2 was dissolved and responsibility for the eight former Soviet countries in Central Asia as well as Middle Eastern countries was given to the new MCD. Responsibility for the remaining seven countries of EUR2, as well as countries in Western and Eastern Europe, was given to the re-established European Department.

For each of the countries in their respective region the area department staff undertake missions to monitor economic trends, vulnerabilities, and developments and to offer policy prescriptions (what the Fund calls “bilateral surveillance”). As indicated, the area department staff are also charged with designing, negotiating, and monitoring IMF programs. Although IMF missions are staffed largely by the relevant area department, members of various functional departments also are often included to offer their specialized expertise. Functional department staff also may embark on missions to conduct their own analysis or offer technical assistance.

The staff have a significant agenda-setting capacity that developed and solidified in the 1950s and early 1960s. Though the Board is responsible for approving all programs, it considers only those programs that the staff have prepared and presented to it. When the Board meets to consider whether a member should be permitted to borrow from the Fund and, if so, how much and under what conditions, it is considering a specific staff recommendation that suggests the size of the loan and the specific conditions the borrower must meet. Should the staff anticipate a negative reaction from the Board, it can refuse to submit it for approval, providing it with significant gate-keeping power.

Once a particular program is in place, it is the staff that assesses whether a borrower has abided by the terms of the program and therefore qualifies to draw on the next instalment of the loan. Most significantly, the staff can require a potential borrower to undertake certain

“prior actions” or meet certain “preconditions” before any program is presented to the Board. This provides the staff with considerable autonomy to define specific prior actions, determine when the borrower has met them, and refuse to present any program to the Board before these actions have been undertaken. Rationalists and constructivists therefore concur that the Fund staff are endowed with considerable autonomy.<sup>8</sup>

To be sure, the staff recognize the concerns and preferences of the Board directors, and some powerful member state officials are, in selected cases, capable of advancing their interests through informal contacts with staff early in the loan negotiation process. Indeed, some directors may, on occasion, become informally involved in drafting staff proposals, particularly when there is a program for their constituent country or for a country where clear economic and geopolitical interests are at stake or when the financing package is particularly large. But most programs are the product of the staff.

Because directors do not see confidential documents that are critical to loan negotiations, such as the mission briefs that determine the parameters of the staff’s negotiating position and the back-to-the-office reports that survey the progress of negotiations, they cannot easily influence the content of staff prescriptions before they take place. Therefore, in most instances, directors can do little more than direct the staff to encourage, or not, a particular policy in the future, but they can do little to alter the content of programs under consideration. As a result, even though directors are formally empowered to veto a particular program, in practice they have rarely done so, generally confining their interventions to minor changes to staff proposals.<sup>9</sup> The Board’s limited “ownership” over the positions the staff take in loan negotiations has historically been and continues to be an issue

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<sup>8</sup> Barnett and Finnemore 2004:chap. 3; Martin 2006.

<sup>9</sup> Southard 1979:7.

of concern for many directors, especially those representing constituencies that lack the analytical and human resources to monitor staff proposals and to advance alternatives.<sup>10</sup>

The staff are thus critical in the formulation of any program. How do they approach this task? Public choice scholars often rely on the “hard” assumption that “bureaucracies are interested in power, prestige, and amenities. To achieve these objectives, they try to maximize their budget, staff, and their independence.”<sup>11</sup> The IMF staff are therefore often alleged to engage in “loan pushing” in order to maximize their budget. This line of argument suggests the staff, subject to a budget constraint, should be biased toward larger loans regardless of the configuration of domestic interlocutors.

But the Fund has demonstrated that it will, on occasion, interrupt or cancel programs due to poor performance. As a result, some public choice scholars have turned to “soft” assumptions about career advancement incentives to explain why loan pushing tends not to be as prevalent as suggested by “hard” public choice approaches.<sup>12</sup> Negotiating large *and* successful programs is one way that staff advance within the Fund. Program failure, especially where the Fund makes a large financial commitment, can not only damage the career prospects of the staff who designed it, but also the IMF’s reputation and the legitimacy of the principles that have been applied in crafting it. Staff are therefore not necessarily interested in large programs per se, but rather large programs that are likely to be judged as successful.

Because program success often depends on the ability of the staff to find and work with government officials who embrace their policy goals, career advancement incentives lead the Fund staff to seek out sympathetic interlocutors. As Miles Kahler observes, “Consensual knowledge, agreement on the underlying features of the national economy and on the policy prescriptions best suited for adjustment, may explain the likelihood of

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<sup>10</sup> IMF 1999:13, 34; Martin 2006:7.

<sup>11</sup> Vaubel 1996:195.

<sup>12</sup> Willett 2002.

cooperative outcomes between national governments and IFIs [international financial institutions].”<sup>13</sup> In constructivist terms, successful programs can be said to depend on the presence of government officials who share the “constitutive norms” that the Fund promotes. These constitutive norms define the boundaries of legitimate policy practice in a given setting (i.e. policy adjustment, rather than controls or restrictions, is necessary to manage balance of payments constraints). In game theoretic terms, these norms comprise the “common knowledge” that creates a “focal point” around which the negotiating positions of the Fund and their domestic interlocutors can converge.

How do the staff select their preferred interlocutors? The professional training of the staff is a critical determinant of their approach to their daily tasks in general and negotiating programs in particular.<sup>14</sup> The staff draw on this training, which instils both technical knowledge and normative conceptualizations about “appropriate” policy, to diagnose economic problems and to form policy judgments.

Figure 1 provides newly available data on the professional training characteristics of a sample of area department staff members from 1946 to 1998. These data are drawn from telephone directories found in the Fund’s archives and supplemented by the IMF Communications Department. Professional training data were found in Digital Dissertations, Index to Theses in Great Britain and Ireland, LexisNexis Executive, and various documentary sources (such as *International Who’s Who*).<sup>15</sup>

**[INSERT FIGURE 1 HERE]**

Figure 1 reveals some interesting variation over time. Until the late 1960s and early 1970s most of the Anglo-American-trained area department staff worked in the WHD. This likely reflects an early organizational practice of the Fund, since discarded, that sought to

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<sup>13</sup> Kahler 1992:125. See also p. 126 and Kahler 1993:371, 377.

<sup>14</sup> Babb 2003; Evans and Finnemore 2001; Chwieroth 2007a; 2008.

<sup>15</sup> See <<http://www.lib.umi.com/dissertations/seach>>; <<http://www.these.com>>; <<http://global.lexisnexis.com/>>; <<http://www.worldwhoswho.com/>>.

place a region's nationals in their respective area departments. Because such a large number of the Fund staff at the time were American nationals it is not surprising to find such a large proportion of Anglo-American-trained economists in the WHD. Other area department staff tended to be either trained at universities from a select few European and English-speaking countries, or were "non-economists" with previous work experience in the public financial sector, such on the staff of treasuries, central banks, finance ministries, or the Bank for International Settlements (BIS).

In the early to mid-1970s there was a rather significant decline in the prevalence of Anglo-American-trained economists working in the area departments. Yet this trend reversed itself in the late 1970s with Anglo-American economists becoming increasingly overrepresented in the 1980s and 1990s. These trends, Sarah Babb speculates, were likely due to the Fund's tendency in the early to mid-1970s to recruit more public sector financiers than economists before reversing course in the late 1970s.<sup>16</sup> Figure 1 shows a significant increase from the late 1970s to late 1990s in the proportion of Anglo-American-trained economists across all the area departments. Thus, although the Fund staff have historically had close links with the Anglo-American economics profession, it appears that since the late 1970s, the Fund has become even more an "Anglo-American economists' organization." Because this training shapes the manner in which the staff define "appropriate" policy, it matters that the Fund has historically been and continues to be staffed primarily by Anglo-American-trained economists.

I argue the staff seek out interlocutors with similar academic credentials, professional training, and work experience. These similar professional characteristics help provide the Fund staff and their domestic interlocutors with a shared, albeit narrow, way of interpreting

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<sup>16</sup> Babb 2003:19. But Babb's data stop in 1991 and this trend may have been reversed in the past decade when the Fund has given the impression that it has sought to recruit more staff with financial sector experience.

the world.<sup>17</sup> Similar professional characteristics help to create a small, but significant, cadre of government officials who are inclined to share the IMF's policy goals and therefore a stronger commitment to the policies it promotes. Similar professional characteristics thus help to create the consensual knowledge about "appropriate policy" that Kahler finds so critical to the success of IMF programs. To put it differently, similar professional characteristics can help to foster a trans-national epistemic community of actors who share a common approach to policy, thereby underpinning the success of IMF programs.

Several IMF officials and close observers of the Fund echo these arguments. Certainly, Boughton's discussion of the "silent revolution" attests to the importance of such factors. Similarly, Ngaire Woods, in her study of the IMF and the World Bank, concludes that success often depends on the presence of sympathetic interlocutors: "Where the Fund and Bank staff share technical expertise, methodology, and an orthodox economist's understandings of problems and solutions with officials in a borrowing country, their capacity to transmit (or reinforce) ideas is heightened."<sup>18</sup>

Some observers go even further, claiming that the presence of sympathetic interlocutors constitutes a necessary condition for IMF success. Kahler observes that, "close alignment between a cadre of national economic technocrats and the IFIs [international financial institutions] seems to have been a prerequisite for agreement [on reform]."<sup>19</sup>

Stephan Haggard similarly concludes:

"In the absence of a countervailing 'stabilizing cadre' capable of articulating the long-term political, as well as economic, benefits of adjustment, programs are likely to fail. The core of this cadre is a cohesive group of sympathetic economic technocrats forming the domestic half of a transnational coalition with the Fund. When these groups are absent or politically marginal, commitment falters...*These networks, perhaps more than resources per se, are the political bases for the power and influence of these organizations [IMF and World Bank]. The existence of an IMF-sympathetic 'stabilizing cadre' within the state appears to be a prerequisite for program success.*"<sup>20</sup>

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<sup>17</sup> Kahler 1992:126-128; Krueger 1998; Nelson 1990:314, 339-341.

<sup>18</sup> Woods 2006:72.

<sup>19</sup> Kahler 1992:127.

<sup>20</sup> Haggard 1985:184, 186, emphasis added. See also p. 183.

Fund officials recognize both the importance of sympathetic interlocutors as well as the IMF's capacity to facilitate their emergence and empowerment. According to David Finch, a former long-serving senior staff member, as early as the 1950s the IMF staff realized the importance of working with sympathetic interlocutors.<sup>21</sup> Along similar lines, a recent staff analysis finds that program implementation depends more on a borrower's domestic political economy than on program design.<sup>22</sup> Such findings lead historian Harold James to observe that, "[O]ne of the major functions of the IMF has been concerned with the transmission of ideas...by bolstering the position of reformers in the bureaucratic structures, usually the finance ministry or central bank."<sup>23</sup> Where the Fund initially finds none available, it often seeks to "create" sympathetic interlocutors via technical assistance, further underscoring their importance for the institution's success.<sup>24</sup>

The staff therefore are likely to make a special effort to craft larger programs for countries with sympathetic interlocutors. Countries with sympathetic interlocutors offer, in all likelihood, a greater chance of success than those without them, and larger programs, by offering greater bargaining leverage and by helping to reduce the severity of the required economic adjustments, are likely to offer greater empowerment of reform-minded officials than smaller programs. Countries with sympathetic interlocutors may therefore be seen as worth the risk of extending larger loans. Working with sympathetic interlocutors thus fits with the staff's career advancement incentives, since it enhances the prospect of crafting a large and successful program. But the staff's desire to work with sympathetic interlocutors extends beyond career advancement incentives; it also fits with their normative bias as economists toward influencing the direction of the world economy and the economies of

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<sup>21</sup> Finch 1989.

<sup>22</sup> Ivanova et al. 2003.

<sup>23</sup> James 1996:133.

<sup>24</sup> Kahler 1992:129; 1993:377; Woods 2006.

individual borrowers according to a particular set of theoretical principles, that is, those broadly in line with “Anglo-American economics.”

The case of Chile in the early 1980s illustrates the special efforts the staff will undertake for sympathetic interlocutors. Following a wave of radical market reforms engineered largely by a group of University of Chicago-trained technocrats, Chile suffered an economic crisis. In 1983 and 1984 these technocrats, due to mounting domestic pressure, were replaced by nationalist entrepreneurs, such as the new finance minister Luis Escobar Cerda, who then promptly raised tariffs and took expansionary measures to stimulate the economy. The IMF opposed these expansionary measures, and, when agreement became impossible, it suspended formal discussions for financial support. The staff then sought out sympathetic interlocutors outside the finance ministry, such as Hernán Büchi, then superintendent of Chile’s banks and a supporter of many of the IMF’s policy goals. Bypassing Escobar Cerda, the IMF staff held informal discussions with Büchi, which had begun in late 1982, through 1984. These discussions with Büchi, who had studied economics at Columbia University, formed the basis of an economic program that would result in a \$750 million multi-year IMF program and would return Chile to the path of market reform when, in 1985, following poor results from the expansionary measures, Büchi became finance minister.<sup>25</sup>

It is important to point out that I am not arguing that similar training will necessarily lead the Fund staff and their interlocutors to see eye-to-eye on every detail of a particular program. This is clearly not the case. In fact, the presence of interlocutors with similar professional characteristics as the Fund staff can engender an improvement in a country’s technical and analytical capacities, thereby potentially diminishing the Fund’s influence. Indeed, the “silent revolution” brought with it a remarkable change in the intellectual calibre

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<sup>25</sup> Teichman 2001:78-82.

of the Fund's interlocutors. As a result, the Fund's discussions with government officials often became more complex and even-handed. The staff no longer possessed the "intellectual strength" to assert and press their views on some governments. The vast improvement in the quality of the Fund's interlocutors meant that some governments were less likely to be deferential to the Fund's technical expertise. But, on average, policy consensus tends to be stronger in cases where the Fund staff and their interlocutors share similar professional characteristics than in cases where they do not.

How are management and the Board likely to view staff recommendations for larger loans for countries with sympathetic interlocutors? Both should offer their support. Indeed, former First Deputy Managing Director Stanley Fischer has suggested that the Fund purposefully seeks out such interlocutors when negotiating programs.<sup>26</sup> But IMF management also faces incentive to seek excessive insurance against failure in *all* cases, not just those where sympathetic interlocutors are present. This may bias management to err on the side of larger programs for all countries.<sup>27</sup>

The Board, for its part, is also likely to look favourably upon programs negotiated with sympathetic interlocutors. But geopolitical and economic interests may lead powerful member states to err on the side of larger programs for strategically important countries, not just those where sympathetic interlocutors are present. As a result, the approach favoured by the IMF and its major shareholders can, on occasion, diverge, particularly when geopolitical and economic interests are at stake.

The different approaches that the IMF and the US took to Argentina in the 1980s vividly illustrate the possibility for divergence. In the mid-1980s the IMF was reluctant to support "heterodox" stabilization programs that employed wage and price controls. But Argentine officials, by appealing to concerns over the systemic implications of default,

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<sup>26</sup> Fischer 1997:26.

<sup>27</sup> Willett 2002:69.

enlisted U.S. officials to press the IMF to lend.<sup>28</sup> On this occasion the IMF bent to the contrasting approach of its most powerful shareholder, but, interestingly, it refused to augment the level of financial assistance available to Argentina.<sup>29</sup> The failure of Argentina to commit fully to the policy goals of the IMF contributed to its hesitation to augment its financial commitment.

In 1988, Argentine officials again sought IMF support for a heterodox program. But this time the Fund insisted on orthodox measures as a precondition for progress on IMF lending and debt negotiations with commercial banks. But Argentine officials refused, arguing that debt relief should come first. Yet despite U.S. pressure on the Fund to support Argentina, which included a direct appeal from the Treasury Secretary, the IMF refused to lend, citing a history of failed programs and an unwillingness of government officials to commit to Fund's policy goals.

The case of Argentina in the 1980s usefully illustrates a number of this paper's arguments. First, it demonstrates how the Fund can act autonomously, even in cases where its major shareholder, the U.S., seeks to push it in an alternative direction. The case also usefully illuminates how the Fund can use preconditions to minimize political interference from its major shareholders. It also shows how the approaches of the IMF and the U.S. can diverge; with the Fund, on occasion, refusing to support governments that demonstrate an inability to commit to its policy's goals, while the U.S. often pursues its geopolitical interests even when they lead it to support programs where sympathetic interlocutors are not present.

Still, some may claim that IMF decisions to support sympathetic interlocutors may simply be a symptom of influence of the U.S. and other powerful shareholders. The strong version of this argument would be that powerful shareholders push the staff to reward countries with "good" government officials, while the weak version of this argument would

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<sup>28</sup> Kaufman 1989:400-401.

<sup>29</sup> James 1996:377-378.

be that the staff recognize the preferences of powerful shareholders and thus craft IMF programs in accordance with these preferences. Yet neither version is entirely convincing.

While powerful shareholders may place additional political pressure on the IMF to craft generous programs for strategically important countries where sympathetic interlocutors are present (such as Mexico in the 1980s and 1990s), such cases tend to be the exception rather than the rule. As stated earlier, powerful shareholders do not typically actively intervene in the design of loan programs. Routine intervention would, in fact, be counterproductive, as it would undermine the benefits of delegation and the legitimacy of the IMF as a multilateral organization. Moreover, as principal-agent theorists emphasize, powerful shareholders have put in place various control mechanisms to help ensure staff behaviour reflects their long-term preferences, so there is little need to closely monitor staff behaviour and good reason to permit the staff a degree of autonomy and discretion. All of this suggests that the strong version of the symptoms of influence argument overstates the degree to which staff lending decisions result directly from shareholder pressure. Indeed, as Stone observes, “In ordinary times, the United States and other shareholders have no compelling interest in intervening in the details of conditionality.”<sup>30</sup>

From a borrowing country’s perspective it also makes little sense to employ on a routine basis close relations with powerful shareholders in order to secure more generous loans. Shareholder pressure only becomes operative when the borrowing country places a high priority on securing IMF financing. But borrowing country influence with powerful shareholders is a valuable and limited resource, which is likely only to be drawn upon when the stakes are particularly high. To the extent that the IMF is inclined to look favourably upon sympathetic interlocutors for the reasons I suggest, then there should be little

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<sup>30</sup> Stone 2007:12.

compelling reason for borrowing countries to employ their influence with powerful shareholders to place additional pressure on the Fund.

The weak version of the symptoms of influence argument also does not hold up to close scrutiny. In large part this is due to the fact that it attributes too much of IMF lending decisions to shareholder preferences and not enough to autonomous staff behaviour. Certainly, the Fund staff are keenly aware of the preferences of their powerful shareholders and they rarely stake out a contrary position. Nonetheless, though powerful shareholders may favour crafting larger loans for countries with “good” government officials, unless these shareholders actively intervene in the design of a loan we would be attributing too much influence to these actors and not enough to the staff. Indeed, adherents to the weak version of the symptoms of influence argument set too high of a bar for identifying autonomous behaviour.

Autonomous staff behaviour is present not only when IOs overcome opposition from powerful shareholders or when they act contrary to their interests; it also manifests itself in more subtle ways, such as when the IMF crafts loans for countries with sympathetic interlocutors without active shareholder pressure. Though loans for countries with sympathetic interlocutors may help powerful shareholders advance their interest in rewarding “good” government officials, unless these shareholders actively pressure the Fund, such lending decisions should be seen as a modest form of autonomous behaviour. In such cases the IMF is developing policy that does not stem directly from explicit shareholder demands but nevertheless helps these shareholders realize their interests. For lending decisions to these “ordinary countries in ordinary circumstances” the staff should be seen as exercising autonomous behaviour by deciding how, among the several possible ways they could advance shareholder interests, these interests are best served. Such behaviour, as Michael

Barnett and Martha Finnemore observe, might be called “autonomy by design.”<sup>31</sup> Thus, rather than being seen as a “symptoms of influence” the decision to lend to sympathetic interlocutors can often be seen as a “symptom of autonomy.”

### **The “Demand Side”**

A country’s demand for IMF support is conventionally linked with deteriorating economic conditions, with the expectation being that more severe problems will result in demand for larger IMF loans. Because of the significant economic and political costs of adjustment, governments are conventionally expected to be reluctant to approach the Fund until conditions are desperate.

Some argue, however, that governments may also turn to the Fund for political reasons. Some scholars claim that governments turn to the Fund in order to undertake unpopular reforms.<sup>32</sup> Government officials facing opposition are said to approach the Fund in order to “tip the balance” against their political foes. What enables reform-minded officials to use the IMF in this fashion is the fact that IMF programs are not subject to formal approval by other domestic political actors, thereby enabling the COG to bypass any potential opposition. By participating in a Fund program reform-minded officials can tie their preferred policies to IMF conditionality, thereby raising the costs of rejecting them.

The Fund raises the costs of rejecting it three ways. One way is by refusing to approve a loan in the first place, or, more commonly, by failing to disburse the next instalment of a loan.<sup>33</sup> Most IMF loans include phased disbursements, with governments usually subject to quarterly reviews. In theory, the IMF is supposed to suspend temporarily or even cancel loans for governments that fail to comply with the conditions specified in a program. But the IMF also grants waivers for non-compliance. These waivers ostensibly derive from a need to adapt programs to unanticipated shocks, though there is evidence, as

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<sup>31</sup> Barnett and Finnemore 2004:28.

<sup>32</sup> Drazen 2002; Kahler 1993; Remmer 1986; Vreeland 2003.

<sup>33</sup> Drazen 2002.

the Argentine case suggests, that the Fund's largest shareholders occasionally apply political pressure to favor certain borrowers for economic or geopolitical reasons.<sup>34</sup>

The IMF can also indirectly raise the costs of rejecting it due to its coordinating relationship with official and private creditors. The Paris Club of official creditors and the Highly Indebted Poor Countries Initiative typically require governments to be in good standing under an IMF program if any debt renegotiations are to be undertaken, while the BIS often requires governments to be actively negotiating a program to access bridge loans from member state central banks. In addition, the European Union has tied progress in accession negotiations to country performance under IMF programs. Failing to abide by Fund conditionality can therefore jeopardize desperately needed debt rescheduling and bridge financing or membership in valued organizations.

Private creditors and investors also often take their cues from the IMF.<sup>35</sup> Generally speaking, private creditors and investors do not rally to countries with IMF programs in good standing, but they do tend to flee from countries where IMF programs have failed. Although there appears to be little, if any, "catalytic effect" associated with IMF programs in good standing, there does appear to be a "paralytic effect" associated with program failure; that is, compliance generally fails to induce greater private investment, but non-compliance tends to lead private investment to dry up.<sup>36</sup>

Much of the literature on the domestic politics of IMF programs places exclusive emphasis on the role of visionary leaders or reform-minded COGs. James Vreeland, for instance, offers a number of examples of various visionary leaders in Brazil, Nigeria, and Uruguay who sought out IMF assistance in order to pursue their policy preferences.<sup>37</sup> Although this focus is understandable given the COG's role in ultimately deciding whether to

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<sup>34</sup> Stone 2002, Woods 2006.

<sup>35</sup> Vreeland 2003.

<sup>36</sup> Edwards 2005.

<sup>37</sup> Vreeland 2003.

enter into an IMF program, it also comes at a cost, as it tends to marginalize the role of other government officials who may decisively shape this decision. The existing literature typically depicts COGs as having fully developed preferences for reform, with their major requirement appearing to be IMF assistance in order to overcome opposition. Certainly, there may be some cases where the COG has strong preferences for reform and drawing on IMF financing. But there are likely to be many cases where the COG is either uncertain of or even opposed to this course of action.

Reform-minded officials therefore often first negotiate a program with the IMF staff, and then seek to convince the COG of the need to accept it. For instance, Boughton observes that during Mexico's negotiations with the Fund in autumn 1982 that outgoing President José López Portillo "was far from convinced that Mexico should undertake the commitments that such a program would entail, and there was substantial opposition in the cabinet."<sup>38</sup> Expressing his opposition to the Fund, López Portillo at one point stated: "The remedy of the witch doctors is to deprive the patient of food and subject him to compulsory rest."<sup>39</sup>

Sitting at the apex of the decision-making structure, COGs are typically faced with competing alternatives as to the "appropriate" course of action. Crises do not come with "instruction sheets" on how to manage them; they are moments when the diagnosis of economic problems and the "appropriate" course of action must be debated and negotiated.<sup>40</sup> Interpretations therefore become critical.

The COG is typically offered two broad alternatives to deal with economic crises. The "nationalist" alternative, such as that pursued by Escobar Cerda in Chile, prioritizes growth, development, and national sovereignty, places blame for crises on the vagaries of unfettered markets, and advocates protection or controls of various sorts to manage crisis

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<sup>38</sup> Boughton 2001:291. See also p. 292, 300, 302. Boughton indicates that the program had to be sold to President-elect Miguel de la Madrid as well.

<sup>39</sup> As cited in James 1996:367,

<sup>40</sup> Blyth 2002.

pressures. On the other hand, the “liberal” alternative emphasizes domestic sources of crises and stresses the need to adjust policies and stabilize and liberalize the economy in order to lessen inflation, capital flight, and foreign debt. While liberals typically advocate behaving as “responsible debtors” and seeking to make or reschedule debt repayments, nationalists are likely to suggest the threat of default or the formation of debtor cartels to negotiate better terms.

Still, even the most ardent nationalist will likely eventually recognize the limits of such a strategy, particularly when reserves are running out, and therefore may consent to entering negotiations with the Fund. But nationalists are likely to find it particularly hard to accept IMF conditionality and to reach agreement on a program. Liberals, however, are likely to find it easier to reach agreement.

In emerging markets and developing countries the core of the liberal alternative is often a cohesive group of Anglo-American-trained economists. Anglo-American-trained economists tend to find themselves appointed to key economic positions in response to a country’s growing dependence on external financial resources.<sup>41</sup> In sociological terms, such appointments represent a form of “ceremonial conformity” to the standards of actors that wield a degree of power over a country. In the language of rational choice, these appointments represent a signal to the international financial community of a government’s commitment to a particular policy orientation.

Anglo-American-trained economists have historically and continue to play an important policymaking role in emerging markets and developing countries. Figure 2 provides newly available data on the professional training characteristics of finance ministers and heads of the central bank from a sample of 44 emerging markets and developing

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<sup>41</sup> Markoff and Montecinos 1993:46; Schneider 1998.

countries.<sup>42</sup> I identify economic policymakers from the *Current World Leaders Almanac*, the *Chiefs of State and Cabinet Members of Foreign Governments Directory*, and the websites of the finance ministries and central banks of various countries. Professional training data were found in Digital Dissertations, Index to Theses in Great Britain and Ireland, and various documentary sources (such as *Who's Who in Central Banking*). Responses to emails and faxes from some finance ministries and central banks also proved useful.

**[INSERT FIGURE 2 HERE]**

Figure 2 reveals that a “silent revolution” of sorts did occur in the late 1980s in a number of emerging markets and developing countries across several regions. Prior to that period in the sample of countries included in the analysis the Fund found less than a third of its interlocutors in the finance ministry and central bank to be Anglo-American-trained economists. Historically, the Fund seems to have encountered the fewest sympathetic interlocutors in sub-Saharan Africa, which could account for its relative lack of success in the region. But across other regions there has been a significant increase in the proportion of sympathetic interlocutors since the late 1980s. This increase has been particularly sharp in Latin American (WHD) and Asia (SEAP, CAD, APD). This proportion also has increased dramatically in EUR/EUR1 countries, but one should be cautious in reaching conclusions from this result because the regional sample is limited to two countries (Israel and Turkey).

Due to their similar professional characteristics, Anglo-American economists and external financial representatives tend to share common policy beliefs and speak the same language (both professionally and linguistically). COGs are therefore likely to defer to the advice of Anglo-American economists in crisis situations because they perceive their

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<sup>42</sup> Countries include: Argentina, Bolivia, Brazil, Chile, China, Colombia, Costa Rica, Dominican Republic, Ecuador, Egypt, El Salvador, Ethiopia, Ghana, Guatemala, Haiti, Honduras, India, Indonesia, Iran, Iraq, Israel, Jordan, Korea, Liberia, Malaysia, Mexico, Morocco, Myanmar, Nicaragua, Nigeria, Panama, Pakistan, Paraguay, Peru, Philippines, Singapore, South Africa, Sri Lanka, Syria, Thailand, Tunisia, Turkey, Uruguay, and Venezuela.

connections with external financial representatives to be critical for accessing financial resources and enhancing the government's credibility. Even though the COG may be uncertain of or opposed to the need for reform, this perception serves to empower reform-minded officials because they can present themselves, their prescriptions, and an IMF program as the "only way out" of the economic crisis.

For example, it was clear after formal discussions between the Fund and Chile had been suspended in 1984 that Escobar Cerda could not unlock external financial resources. But because Büchi had close connections with the IMF and had informally worked out an agreement, once the nationalist expansionary program ran into problems, he could present his liberal program to Chile's military leadership as the sole credible alternative. Indeed, Büchi's position was strengthened against his opponents because he had allied himself with the Fund and thus could come forward in 1985 with a clear economic program that would command international support.

The 1982 negotiations between Mexico and the Fund provide another useful illustration. In response to Mexico's economic difficulties, López Portillo initially lent support the liberal alternative, authorizing his Yale-trained finance minister Jesus Silva Herzog, who was sympathetic to the Fund's policy goals, to negotiate with the IMF. But a few weeks later López Portillo abruptly reversed course and backed the nationalist alternative by nationalizing the banking system, imposing exchange controls, and forcing the resignation of his Yale-trained central bank governor Miguel Mancera. Mancera, an interlocutor sympathetic to the Fund's policy goals, was subsequently replaced by Carlos Tello, an official who had helped design the nationalist policy course.<sup>43</sup> Though Silva Herzog

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<sup>43</sup> Tello is nominally an Anglo-American-trained economist, having earned a Master's degree in economics from Columbia University in 1959 and embarked on Ph.D. studies at Cambridge University in the early 1960s. But his credentials as a "nationalist" are much stronger. His training also includes studies in East Germany as well as at the Universidad Nacional Autónoma de Mexico with Horacio Flores de la Peña, a left-wing economist and self-described "socialist." At Cambridge he studied under Joan Robinson, a prominent Post-Keynesian academic. As Minister of Budget and Planning in the mid-1970s in the López Portillo administration, Tello

remained in office, the Fund now became understandably skeptical of the government's commitment to its preferred policy goals.

In the negotiations with the Fund, Tello offered stiff opposition and often implemented policy measures that undermined the program that Silva Herzog was seeking to prepare.<sup>44</sup> The Fund hesitated in lending to Mexico, resisting, as it did with Argentina in 1988, U.S. pressure to release financing before agreement on an economic program could be reached.<sup>45</sup> Lending was delayed by more than a month by which time the incoming administration, which had signalled sympathy to the Fund's policy goals, was about to take power.<sup>46</sup>

López Portillo's willingness to accept a Fund program seems to have been decisively shaped by Silva Herzog's strategic actions. During the negotiations, Silva Herzog often used his links to external creditors to gain leverage in the domestic debate. On one occasion Silva Herzog successfully undermined aspects of Tello's bank nationalization by refusing to leave for a meeting with external creditors until the list of newly designated bank directors was more to his liking.<sup>47</sup> Upon returning from the meeting, Silva Herzog gave López Portillo a dramatic warning: unless the government reached agreement soon with the IMF, Mexico would be unable to import even basic foods before the end of his term.<sup>48</sup> Agreement with the

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offered Post-Keynesian/structuralist diagnoses and policy prescriptions that ran contrary to the liberal position of Anglo-American-trained government officials and the IMF. The Fund therefore viewed Tello and elements in the Mexican government with some suspicion. See Maxfield 1990:122-127; Babb 2001:184.

<sup>44</sup> Boughton 2001:300, 302, 304; Kraft 1984:44-45.

<sup>45</sup> Boughton 2001:300-301.

<sup>46</sup> The incoming president had announced on September 9<sup>th</sup> that Silva Herzog would remain as finance minister, a post he held until 1986. Boughton (2001:302) indicates that this helped create a "false dawn" during the crisis negotiations. Mancera also would soon be brought back as head of the central bank, a post he held until 1997. But Silva Herzog and Mancera were not the only members of the Mexican negotiating team that had training similar to that of the Fund staff. The incoming president, Miguel de la Madrid, had a Master's in Public Administration from Harvard. More importantly, his economic officials were primarily American-trained economists. De la Madrid's chief representative on the negotiating team and head of his transition team was Harvard-trained economist Carlos Salinas de Gortari. Salinas became Minister of Budget and Planning in the new administration and in 1988 was elected president. Salinas's assistant in the 1982 negotiations was Pedro Aspe Armella, a MIT-trained economist. Aspe became Secretary of Planning under Salinas in the new administration and Finance Minister during the Salinas administration.

<sup>47</sup> Maxfield 1990:149.

<sup>48</sup> Boughton 2001:302.

Fund was presented as the “only way out.” Silva Herzog followed this warning with an equally dramatic ultimatum: unless López Portillo agreed to the program, he would resign.

It is debatable whether an IMF program was the “only way out.” Capturing the worries of many in the international financial community at the time, *The Economist* warned, “Mexico, always an inward-looking country, could have defaulted, snubbed its nose at the bankers, turned its back on the United States and used its oil wealth - Qaddafi-style – to stoke the revolutionary fires of Central America.”<sup>49</sup> But Silva Herzog’s key role in the negotiations, coupled with his dramatic warning and ultimatum, helped convince López Portillo of the need for a program.

In contrast to liberals, nationalists, such as Escobar Cerda and Tello, lack the credibility enjoyed by liberals and their confrontational posture toward the Fund often makes it difficult for them to unlock financial resources. As the IMF’s negotiations with Chile and Mexico suggest, the close links liberals have with external financiers can help convince an uncertain or skeptical COG of the need for a program and reform. Because their prescriptions usually conform closely to the normative environment supported by external financial representatives, liberals gain credibility and an ability to unlock financial resources.

Anglo-American-trained economists would not be empowered if official and private creditors did not constitute their policy proposals as positive signals. The “appropriate” and “credible” course of action is ultimately the one deemed by official and market sentiment. This sentiment is in turn a function of the beliefs shared by external financial representatives that enable them to infer and bestow meaning from particular policy choices.

Again, it therefore matters that the Fund is staffed primarily by Anglo-American-trained economists and therefore influenced by the ideas of the Anglo-American economics profession. Because these ideas define the meaning of “appropriate” policy and “credibility,”

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<sup>49</sup> As cited in Babb 2001:178.

they can act as a severe constraint on the types of policies that COGs will perceive as sustainable. Certain policy options become unsustainable solely because COGs (sometimes erroneously) believe this to be the case.

The policy beliefs of the Fund (and official and private creditors) thus help construct a normative environment in which it is rational to delegate authority to Anglo-American economists, particularly in moments of crisis. By fixing meanings to particular policies and defining the range of “appropriate” action, the Fund helps to create a social context that can foster the emergence and empowerment of government officials sympathetic to the policies it promotes. It is therefore rational for COGs to delegate authority to Anglo-American economists but only within a particular social context that rewards such actions. In more sociological terms, it is this social context that determines what type of “ceremony” must be performed in order to “conform.”

Although the literature typically downplays their strategic agency in securing agreement on IMF programs, Anglo-American economists are clearly not passive actors in this process. Rather, they are often quite effective in exploiting official and market sentiment to promote their views, leading some to label them as “technopols” to indicate their hybrid status as technocrats and politicians.<sup>50</sup> Anglo-American economists can present themselves as best suited to serve as the government’s interlocutor with external financial representatives precisely because their policy preferences conform to the normative environment supported by these representatives.

The IMF can therefore serve as useful transnational ally for reform-minded officials in the same way it can for “visionary leaders.” But because reform-minded officials must convince the COG of the desirability of reforms, the details of the story are slightly different. Reform-minded officials use their links with external financial representatives not only to

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<sup>50</sup> Williamson 1993.

argue that they are best placed to solve the economic crisis but also to gain access to private information to further empower their position.

IMF negotiations and discussions are typically limited to a small, relatively insulated group of government officials located in the finance ministry and central bank. As Kahler observes, these officials, as opposed to the nationalists typically found in the spending, planning, and industry ministries, usually have policy preferences that are “closely aligned” with those of the Fund.<sup>51</sup> More importantly, the nature of IMF negotiations serves to privilege these officials with private information about the Fund’s negotiating position.

Even if the negotiations with the Fund do not involve a particular policy, the position of reform-minded officials who might support it is bolstered by the fact they are the only actors who are privy to this private information. This gives the Fund’s sympathetic interlocutors a privileged gatekeeping role vis-à-vis the rest of the government, empowering those individuals who deal with the IMF most directly. These sympathetic officials can use this privileged access to marginalize or cajole their opponents by suggesting (perhaps fallaciously) that their hands are tied by the staff’s negotiating position, necessitating a set of reforms. This strategy can enable reform-minded officials to win approval from the COG for their preferred policies in cases where this might not otherwise have been possible.<sup>52</sup>

Sympathetic interlocutors are thus critical from both a “supply” and “demand” side perspective. For the IMF staff, working with sympathetic interlocutors fits with their normative biases for particular policies as well as their career advancement incentives. For sympathetic interlocutors, working with the IMF can aid in the struggle with domestic opponents. Where the preferences of the Fund and its interlocutors align, the Fund is likely to offer larger loans and the borrowing country is likely to be able to negotiate larger loans.

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<sup>51</sup> Kahler 1992:127.

<sup>52</sup> Reform-minded officials can also use their access to private information about the preferences of other domestic actors to suggest to the Fund (perhaps fallaciously) that their hands are tied by their opponents, necessitating “softer” conditionality or larger loans.

It may also be the case that COGs permit sympathetic interlocutors to negotiate with the Fund in the hopes of securing larger loans, even though they have no intention of abiding by conditionality. Without denying this possibility, I would stress that this is likely to be a risky strategy. First, the COG would potentially incur the domestic political costs of being labelled a “sell-out.”<sup>53</sup> Second, the COG, particularly one in a country without strong economic and geopolitical significance, would face the “rejection costs” associated with the likely prospect of the program being interrupted or cancelled. Ultimately, it is an empirical question as to whether the benefits of momentarily deceiving the Fund outweigh the long-term political and economic costs of doing so. But there is no a priori reason why we should expect deception to be the modal strategy.

### **Data, Methods, and Analysis**

In this section, I assess whether sympathetic interlocutors lead to larger IMF loans. The statistical findings provide support for the argument. Where the Fund staff and a borrower’s finance minister and head of the central bank share similar professional training characteristics, the IMF is likely to provide larger loans.

The data set comprises annual data on 146 IMF loans extended to 29 emerging markets and developing countries from 1974 to 1998 under the Stand-By and Extended Fund Facility programs.<sup>54</sup> The dependent variable is the size of the loan measured in Special Drawing Rights (SDRs).<sup>55</sup>

At the heart of my argument is the notion that the size of an IMF loan depends in part on shared policy beliefs between the IMF area department staff and their interlocutors in the borrowing country, which are typically the finance minister and the head of the central bank.

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<sup>53</sup> Remmer 1986.

<sup>54</sup> I exclude loans made under the IMF’s Structural Adjustment Fund and Enhanced Structural Adjustment Fund – the two other principal IMF lending programs – because these programs are likely to be extended under different lending criteria due to their focus on long-term structural adjustment rather than short-term balance of payments support. The sample size drops from 44 to 29 due to data availability constraints.

<sup>55</sup> Joseph Joyce generously shared these data, which were gathered from the IMF’s *Annual Report*.

I employ the professional characteristics data for these officials to proxy their shared beliefs. I create the variable IMF area department staff, which captures the proportion of Anglo-American-trained staff within a particular area department. I define sympathetic interlocutors as those finance ministers and heads of the central bank who received professional training in economics in the United States or United Kingdom, coded as 1 (yes), or 0 (no). I aggregate these scores and construct a proportion to create the variable sympathetic interlocutors. The primary independent variable is then the interactive effect of the IMF area department staff and the sympathetic interlocutors variables. All other things being equal, the presence of domestic interlocutors who share similar professional training as the IMF staff should lead to larger IMF loans.

By themselves, the IMF area department staff and the sympathetic interlocutors variables assess how IMF loan size is affected when the other component of the interactive term equals zero; that is, it captures in part how IMF lending decisions are shaped where the staff and their interlocutors share dissimilar policy beliefs. Where the IMF does not encounter sympathetic interlocutors, it is likely to be more cautious in extending loans. Where borrowing country officials do not encounter sympathetic IMF staff, they are less likely to be able to negotiate larger loans. Both uninteracted variables therefore should have no or a negative influence on the size of IMF loans. Although perhaps theoretically interesting, it should also be noted that the uninteracted coefficient for the sympathetic interlocutor variable is statistically of little importance to the analysis because the IMF area department staff variable never equals to zero in the sample.<sup>56</sup>

Admittedly, common professional characteristics are only one of the possible ways that shared policy beliefs can emerge. As suggested earlier, it also may not necessarily lead the Fund staff and government officials to agree on the details of a program. Both

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<sup>56</sup> See Braumoeller 2004.

possibilities should make it more difficult to uncover a positive relationship, as they should result in a negative bias against the hypothesized relationship.

I also include a number of economic control variables commonly featured in the literature on IMF lending. These variables, which are taken from the World Bank's *World Development Indicators*, capture a country's reserve position, monetary conditions, overall debt, and debt profile.<sup>57</sup> I also include separate indicators for a currency crisis<sup>58</sup> and a banking crisis.<sup>59</sup> To proxy external financial conditions, I include the nominal U.S. Treasury bill rate found in the IMF's *International Financial Statistics (IFS)*. I also control for a country's IMF quota share, since quota shares tell us not only about the size of a country's economy and its potential impact on global financial stability but also its voting power on the IMF Board and its capacity to draw on IMF resources. These data are also from *IFS*.

The IMF is also a political organization whose lending decisions can be influenced by its major shareholders. To control for political influences, I follow a number of scholars and use United Nations (UN) voting affinity scores for countries vis-à-vis the major shareholders: the U.S. and "Major Europe" (the mean score for Britain, France, and Germany).<sup>60</sup> The Fund's lending decisions can also be shaped by the private financial community. Following the emerging convention in the literature, I proxy this influence using country lending exposure by commercial banks from major shareholders. The BIS provides these data.<sup>61</sup> I also include dummy variables to capture periods of significant lending in IMF history - the Mexican peso crisis (1994-1995) and the Asian financial crisis (1997-1998).

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<sup>57</sup> I take the natural log of the variables capturing a country's reserve position, overall debt, and debt profile because each is positively skewed.

<sup>58</sup> Leblang 2004.

<sup>59</sup> Caprio and Klingebiel 2003.

<sup>60</sup> Broz and Brewster Hawes 2006; Oatley and Yackee 2004

<sup>61</sup> BIS 2007.

To evaluate the argument, I ran generalized least squares regression with random effects and robust standard errors.<sup>62</sup> Table 1 presents the results. I first estimate two “baseline models” that exclude the professional characteristics variables. The first baseline model, presented in column 1, includes all the other variables except for the commercial bank exposure variables, which, due to data availability, restrict the time-series to 1983 to 1998, thereby reducing the sample size from 146 to 95. Column 2 presents the second baseline model, which adds the commercial bank exposure variables.

**[INSERT TABLE 1 HERE]**

Both baseline models provide evidence that a country’s quota share is positively related to loan size. The Fund may view “larger quota countries” as necessitating larger loans due to their economic size and the potential systemic impact of financial crisis. It may also be the case that “larger quota countries” can use their weight on the Board to secure larger loans. The results from both columns also suggest that the Fund extended larger loans to countries during the Asian financial crisis. This crisis was of exceptional magnitude and the Fund appears to have responded in kind.

Columns 3 and 4 add the professional characteristics variables to columns 1 and 2, respectively. In both models, the interactive effect is positively and significantly related to the size of IMF loans. Interestingly, in column 4 the IMF area department staff variable is found to be negatively and significantly related to the size of IMF loans, which suggests the

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<sup>62</sup> An F-Test indicates that unit heterogeneity is likely present in the data. Additional diagnostics using the Akaike and Bayesian information criteria suggest that random effects are appropriate. Furthermore, the use of fixed effects would greatly weaken the influence of “slow moving” variables in the model that are of interest. Many of the sympathetic interlocutors in the data set fit this description. For instance, Ali Wardhana served as finance minister of Indonesia from 1970 to 1983, while Miguel Mancera was – with one brief interruption – the head of the Mexican central bank from 1982 to 1997. In addition, fixed effects produce inefficient estimates when the time-series is relatively short, using up 1/T degrees of freedom available. Since the average T in the model specifications range from 3.5 to 5, this is an enormous cost. Since the observations are unequally spaced panel data, I ran a Baltagi-Wu locally best invariant (LBI) test, which failed to reject the null of no autocorrelation. The substantive results are robust across methodological specifications. I obtain nearly identical results (in sign, magnitude, and statistical significance) for the sympathetic interlocutor variable when the data are pooled and when robust standard errors are clustered over countries. On model specification criteria and the Baltagi-Wu LBI test, see Wilson and Butler 2007 and Baltagi and Wu 1999, respectively.

staff tend to be more cautious in extending loans to countries where sympathetic interlocutors are absent. In such cases, the staff may be less likely to make a special effort to craft larger programs since there are fewer signals that the government shares their normative orientation or that it has the “political will” and “ownership” to complete the program successfully.

Turning to the remaining variables, column 3 suggests that the Fund offers larger loans to “larger quota countries” and that it extended larger loans during the Asian financial crisis. The results in column 3 also reveal that the Fund provides smaller loans to those countries with a larger money supply relative to reserves. But the remaining variables are found to be insignificant in both columns.

The political influence and commercial bank exposure variables have surprisingly little substantive effect. These findings could result from the high degree of multicollinearity exhibited among the UN affinity score variables and the commercial bank exposure variables. I therefore estimate separate regressions to tease out the influence of the foreign policy and financial interests of the U.S., Britain, France, and Germany.

The positive and significant coefficient on the interactive term is robust across these alternative specifications presented in columns 5 – 8. The negative coefficient for the IMF area department is also significant in columns 5 – 7. These alternative specifications also add further evidence that the foreign policy interests of major shareholders are not directly related to IMF loan size.<sup>63</sup> There is, however, some support for the claim that countries do command larger IMF loans when there is greater exposure from commercial banks based in major shareholders, such as France (column 7). The effects of IMF quota share and the Asian financial crisis are also found to be influential in several of the models.

Significantly, when we turn our attention to the Akaike (AIC) and Bayesian information criteria (BIC), commonly used model selection methods, we find that inclusion

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<sup>63</sup> Broz and Brewster-Hawes (2006) uncover a similar finding, though Oatley and Yackee (2004) find a positive effect in the post-Cold War era.

of the professional characteristics variables improves the fit of the baseline models. The model in column 4 stands out in this respect, as it reports the highest overall  $R^2$  and the lowest AIC and BIC values. This evidence strengthens the conclusion that professional characteristics are a critical determinant of IMF lending decisions. Given this evidence, it seems reasonable to place the greatest weight on the findings from column 4, which, interestingly, report a coefficient for the interactive term with the greatest magnitude (a finding that is also highly significant).

**[INSERT FIGURES 3 AND 4 HERE]**

To better understand the nature of this interactive effect, I use the results from column 4 to present in Figures 3 and 4 the conditional effects of the IMF area department staff and sympathetic interlocutor variables on IMF loan size. The effect of both variables fluctuates across various levels of the other variable. Figure 3 suggests that the positive effect of sympathetic interlocutors on IMF loan size is conditional on the presence of a majority of area department staff sharing similar training – a threshold that Figure 1 indicates many departments reached in the late 1990s. For instance, when the proportion of Anglo-American-trained area department staff is set to its observed maximum (77.78), a borrower that appoints similarly-trained officials to head the finance ministry and the central bank could increase the size of an IMF loan by anywhere between 2.11 billion and 9.45 billion SDRs. And with IMF loans averaging 670.22 million in the sample under consideration, such an effect is substantively quite large and important.<sup>64</sup>

Interestingly, where Anglo-American-trained economists constitute an “intermediate” or “low” proportion of area department staff, the effect of sympathetic interlocutors is null or negative. These results strongly suggest that the effect of sympathetic interlocutors depends on the degree to which they resonate with whatever orthodoxy has been defined in the

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<sup>64</sup> Overall, the IMF extended 589 stand-by and EFF loans from 1974 to 1998, with an average loan size of 329.63 million SDRs.

relevant area department. Although the IMF staff are often portrayed as sharing a homogenous set of beliefs, there is often a great diversity of opinion within the organization.<sup>65</sup> For all organizations, not just the IMF, the development of particular orthodoxies is closely related to the recruitment of like-minded and similarly-trained professionals. Organizations that recruit from different professions, or that recruit from the same profession but where the content of this training can differ (i.e. a Keynesian vs. monetarist economists), tend to have more heterogeneous beliefs.

Thus, where Anglo-American-trained economists do not constitute a majority of the area department staff, there is likely to be more heterogeneous beliefs about what constitutes “appropriate” or “credible” policy. For the IMF this means the staff are likely to be less biased toward a particular normative view and thus less inclined to privilege only those officials who support a particular set of theoretical principles. Because of belief heterogeneity within particular area departments, success does not come to be defined largely in terms of working with Anglo-American-trained economists. The IMF’s willingness to “supply” generous loans to Anglo-American-trained government officials thus declines. For Anglo-American-trained government officials, greater belief heterogeneity within the Fund means that their claim to be the “only way out” is weakened. Because the Fund staff may define “appropriate” or “credible” policy in a broad fashion, the COG may not perceive the liberal alternative as the sole means to enhance credibility and unlock financial resources. A borrowing country’s willingness to “demand” larger loans thus declines.

Turning to the conditional effect of the professional characteristics of IMF area department staff, I find, not surprisingly, that without sympathetic interlocutors present in borrowing countries, increasing the proportion of Anglo-American-trained area department staff results in smaller loans. As a particular area department increasingly defines orthodoxy

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<sup>65</sup> Chwioroth 2008.

in terms of the theoretical principles of Anglo-American economics, the absence of similarly-trained interlocutors likely leads the staff to be normatively biased against such a government, sceptical of its commitment to the IMF's policy goals and of its "ownership" of the program, and thus less willing to "supply" a generous loan. This appears to be the case even where there is an "intermediate" level of sympathetic interlocutors, which seems to contradict the view that officials engaged in two-level games can present domestic opposition (as proxied by the different professional characteristics of the finance minister and the head of the central bank) as "tying their hands" in order to gain better terms from the IMF.

Yet there is a significant and positive effect when Anglo-American-trained staff come to increasingly occupy a particular area department and they encounter a coherent team of sympathetic interlocutors. For instance, when the observed maximum proportion of Anglo-American-trained interlocutors occupy a borrowing country's finance ministry and central bank, increasing the observed proportion of similarly-trained area department staff from 10 to 54 (which occurred in MED between 1974 and 1997) could produce an increase in the size of an IMF loan by anywhere between 646.36 million and 8.48 billion SDRs – a substantively large and important effect given the average loan size in the sample. Increasing belief homogeneity within particular area departments likely leads the staff to become normatively biased toward supporting similarly-trained government officials and to see a coherent team of interlocutors as more likely to produce successful programs. The result is a willingness to "supply" more generous loans.

In borrowing countries without Anglo-American-trained interlocutors, increasing Anglo-Americanization of their respective IMF area department is likely to stiffen resistance and lessen their willingness to "demand" larger loans. This appears to be the case even when there is an "intermediate" level of Anglo-American-trained interlocutors. Although such countries do often seek out IMF programs, the presence of nationalists within the government

may mean that they find it difficult to commit to the policy actions necessary to unlock larger financial commitments from the Fund. Moreover, this result adds further evidence contradicting the view that officials can use domestic opposition to gain better terms from the IMF. But in the presence of a coherent team of sympathetic interlocutors, increasing Anglo-Americanization of the relevant IMF area department appears to empower these interlocutors to “demand” larger loans. Increasing Anglo-Americanization of the relevant IMF area department may mean that the COG perceives the liberal alternative as the “only way out.”

### **Conclusion**

Although rationalists and constructivists tell us to expect considerable autonomy for IO staff, few scholars have paid sufficient attention to how the staff will behave given this autonomy. With respect to scholarship on the political economy of IMF lending, this has translated into inadequate attention to how the staff’s roles and objectives can shape IMF lending. To the extent scholars consider the role of the staff, they typically rely on thin assumptions that portray the staff as guided purely by technocratic or budget maximization considerations. But these motives do not capture the full range of considerations that shape staff behaviour. This paper offers a modest first step in building a fuller understanding of these considerations.

I began by identifying the role the staff plays in designing IMF programs as well as the array of normative biases and incentives that shape their behaviour. This step is often neglected in the study of IOs in general and the IMF in particular, even though a rich literature from both sides of the rationalist-constructivist divide leads us to expect the staff to play an important role. I then offered evidence that these normative biases and incentives, which lead the staff to seek out similarly-trained sympathetic interlocutors, do shape IMF lending outcomes. Whether one attributes this dynamic to shared constitutive norms, epistemic communities, signalling, common knowledge, or focal points, the result is clear:

Where the staff and their interlocutors share similar professional characteristics, the IMF is likely to offer larger loans.

This finding not only speaks to theoretical debates over IO behaviour, but also to current debates over IMF reform. The results provide preliminary evidence that the staff actively seeks to work government officials with similar professional characteristics. While such behaviour is understandable given their normative biases and incentive structure, it also serves to elevate certain policy goals over others, to engender blind spots in staff analysis, and to downplay “local knowledge.” As a result the Fund is often accused of prioritizing currency and price stability over growth and development, neglecting the importance of political and institutional constraints, and privileging abstract knowledge over local knowledge. To the extent these allegations have some basis; these findings should add impetus to calls to broaden the Fund staff’s recruitment base<sup>66</sup> and to expand the array of actors with which the staff engage in their negotiations and consultations.<sup>67</sup>

These findings also speak the debates over the relationship between domestic politics and international institutions. Scholars have long recognized that domestic actors can use international institutions to tie their hands, thereby empowering their position against domestic opponents. Recently, some scholars, focusing on the role of reform-minded COGs, have extended this argument to IMF conditionality. This paper refines this argument by bringing the role of other reform-minded officials into sharper focus. These reform-minded officials appear capable of relying on their connections with external financial representatives and their access to private information to convince uncertain or sceptical COGs of the need for reform. But this paper also offers evidence that suggests the limitations of governments seeking better terms from international institutions by presenting domestic opposition as tying their hands.

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<sup>66</sup> Evans and Finnemore 2001; Momani 2006.

<sup>67</sup> IMF 2001:42.

This naturally raises the question of whether the Fund should be actively seeking to empower reform-minded officials. In this case, empowering rather than creating reformers would be the Fund's principal task. But, in my judgment, this would not necessarily be the best course of action. Seeking out reform-minded officials would mean that those uncertain, skeptical, or opposed to the need for reform would be left out of the negotiations. In such cases IMF programs would not, in all likelihood, have sufficiently broad "ownership," thus engendering political mobilization and opposition.

The observations of a recent IMF study support this conclusion: "[If] one views conditionality as a mechanism by which the Fund uses financial leverage to induce the authorities to implement reforms they do not endorse, any expansion in conditionality implies a reduction in national ownership." Although there are likely to be limits to the extent to which the staff can engage domestic actors, a fruitful approach offered by the same study would seem to be that "the Fund staff can play a role by holding substantive discussions with other groups [than officials in the finance ministry and central bank], including other ministries, trade unions, industry representatives, and local non-governmental organizations, especially at a stage at which the design of the program is still under consideration."<sup>68</sup> Expanding the array of actors with whom the Fund consults would likely go a long way in tackling some of the current legitimacy problems the IMF faces.

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<sup>68</sup> IMF 2001:42.

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**Table 1** *Covariates of the size of IMF loans, 1974 - 1998*

	(1)	(2)	(3)	(4)
IMF Area Department * Sympathetic Interlocutors			<b>.917**</b> <b>(.330)</b>	<b>1.62**</b> <b>(.575)</b>
IMF Area Department			-28.67 (17.59)	<b>-57.96**</b> <b>(24.05)</b>
Sympathetic Interlocutors			<b>-32.97**</b> <b>(13.57)</b>	<b>-67.94**</b> <b>(27.73)</b>
Reserves / Imports	-328.69 (191.15)	-426.63 (347.14)	-364.39 (191.62)	-247.09 (286.59)
Money Supply / Reserves	-48.66 (26.52)	-34.78 (31.26)	<b>-56.38**</b> <b>(26.84)</b>	-28.12 (25.78)
Public & Publicly Guaranteed Debt / GDP	-109.94 (259.36)	-153.87 (398.70)	-151.57 (286.29)	-475.99 (412.32)
Public & Publicly Guaranteed Debt / Exports	225.21 (231.77)	236.86 (345.86)	159.32 (194.49)	95.78 (291.02)
Short-term Debt / Total Debt	155.36 (165.67)	78.24 (214.31)	77.79 (161.68)	-147.65 (184.02)
Currency Crisis	185.43 (270.71)	143.49 (356.99)	263.00 (274.87)	177.44 (325.29)
Banking Crisis	63.96 (189.59)	455.74 (351.52)	-145.23 (200.66)	174.39 (283.69)
U.S. Treasury Bill Rate	71.09 (40.19)	-30.45 (82.55)	32.89 (45.57)	-48.94 (78.37)
IMF Quota Share	<b>1680.34**</b> <b>(413.56)</b>	<b>1342.90**</b> <b>(611.75)</b>	<b>1560.62**</b> <b>(415.33)</b>	840.92 (480.24)
US UN Affinity	-9.34 (5.18)	-15.43 (14.88)	-12.02 (8.85)	-23.22 (16.42)
Major Europe UN Affinity	17.81 (17.56)	13.68 (33.50)	17.39 (17.76)	16.54 (30.06)
UK UN Affinity				
France UN Affinity				
Germany UN Affinity				
US Bank Exposure		283.28 (298.49)		207.02 (256.76)
Major Europe Bank Exposure		-281.62 (569.57)		-36.55 (498.68)
UK Bank Exposure				
France Bank Exposure				
Germany Bank Exposure				
Mexican Peso Crisis	1491.66 (1045.91)	1854.69 (1152.22)	1231.65 (971.66)	1926.29 (1103.82)
Asian Financial Crisis	<b>2177.44**</b> <b>(912.65)</b>	<b>2079.02**</b> <b>(1063.65)</b>	<b>1686.28**</b> <b>(771.54)</b>	1458.02 (887.18)

Observations	146	95	146	95
Groups	29	27	29	27
R-Squared (Between Groups)	.609	.707	.737	.841
R-Squared (Overall)	.483	.534	.544	.609
Probability>Chi-Squared	.0000	.0000	.0000	.0000
BIC	2555.12	1713.17	2552.10	1710.86
AIC	2513.12	1672.31	2501.38	1662.34

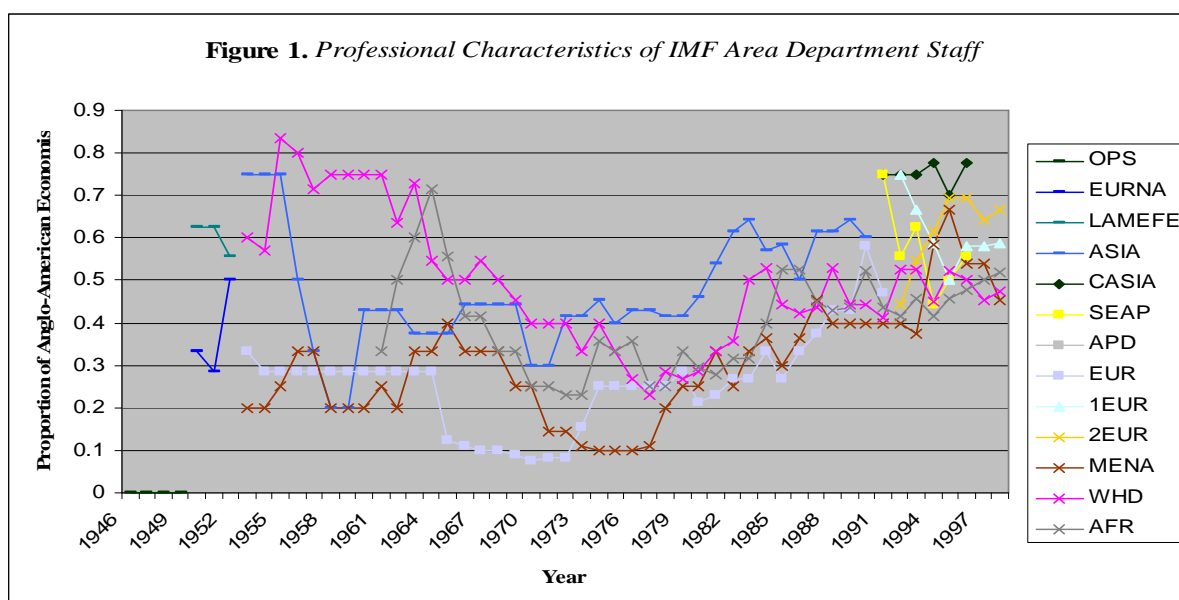
Notes: Robust standard errors in parentheses. \*\*p<.05.

**Table 1 (continued)** *Covariates of the size of IMF loans, 1974 - 1998*

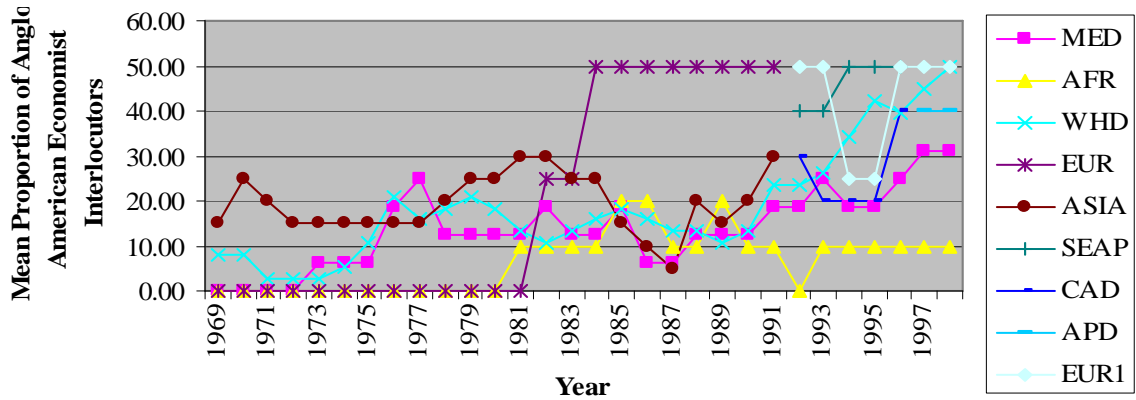
	(5)	(6)	(7)	(8)
	<b>1.52**</b>	<b>1.39**</b>	<b>1.42**</b>	<b>1.38**</b>
IMF Area Department * Sympathetic Interlocutors	<b>(.558)</b>	<b>(.538)</b>	<b>(.539)</b>	<b>(.554)</b>
	<b>-54.52**</b>	<b>-49.89**</b>	<b>-48.75**</b>	<b>-44.08</b>
IMF Area Department	<b>(22.99)</b>	(22.06)	<b>(22.11)</b>	(22.81)
	<b>-66.48**</b>	<b>-54.13**</b>	<b>-59.95**</b>	<b>-57.92**</b>
Sympathetic Interlocutors	<b>(26.92)</b>	<b>(26.65)</b>	<b>(26.07)</b>	<b>(27.01)</b>
	-216.13	-397.58	-200.78	-294.94
Reserves / Imports	(225.87)	(359.24)	(243.95)	(279.24)
	-27.27	-42.04	-42.22	-28.86
Money Supply / Reserves	(25.07)	(31.30)	(27.43)	(24.04)
	-292.85	-566.18	-315.76	-201.96
Public & Publicly Guaranteed Debt / GDP	(320.96)	(429.04)	(294.32)	(293.54)
	94.66	299.49	242.43	220.93
Public & Publicly Guaranteed Debt / Exports	(252.12)	(300.34)	(247.13)	(283.09)
	-63.16	-56.97	-33.82	-69.88
Short-term Debt / Total Debt	(149.06)	(183.21)	(142.88)	(169.68)
	221.21	171.47	256.45	165.13
Currency Crisis	(362.89)	(271.65)	(379.07)	(351.98)
	161.16	112.76	105.62	223.19
Banking Crisis	(248.35)	(290.85)	(261.77)	(265.45)
	-89.86	-100.39	-25.76	-49.19
U.S. Treasury Bill Rate	(70.49)	(90.37)	(60.99)	(60.05)
	<b>938.66**</b>	1091.75	<b>980.44**</b>	<b>1317.39**</b>
IMF Quota Share	<b>(392.02)</b>	(589.31)	<b>(392.19)</b>	<b>(626.91)</b>
	-13.41			
US UN Affinity	(9.68)			
Major Europe UN Affinity				
		-30.27		
UK UN Affinity		(23.78)		
France UN Affinity			-3.78	
			(14.28)	
Germany UN Affinity				-6.67
				(15.48)

	211.74			
US Bank Exposure	(110.01)			
Major Europe Bank Exposure				
		215.59		
UK Bank Exposure	(203.22)			
			<b>389.96**</b>	
France Bank Exposure			<b>(147.88)</b>	
				251.67
Germany Bank Exposure				(174.38)
	1265.75	1908.21	1302.00	1388.29
Mexican Peso Crisis	(964.94)	(1190.39)	(1045.32)	(1099.11)
	1606.53	<b>1756.37**</b>	1703.77	<b>1815.23**</b>
Asian Financial Crisis	(896.59)	<b>(821.26)</b>	(880.28)	<b>(905.08)</b>
	101	96	101	99
Observations	28	27	28	28
Groups	.871	.779	.871	.788
R-Squared (Between Groups)	.586	.597	.574	.543
R-Squared (Overall)	.0000	.0000	.0000	.0000
Probability>Chi-Squared	1806.20	1720.72	1808.98	1783.08
BIC	1761.75	1677.13	1764.82	1738.96
AIC				

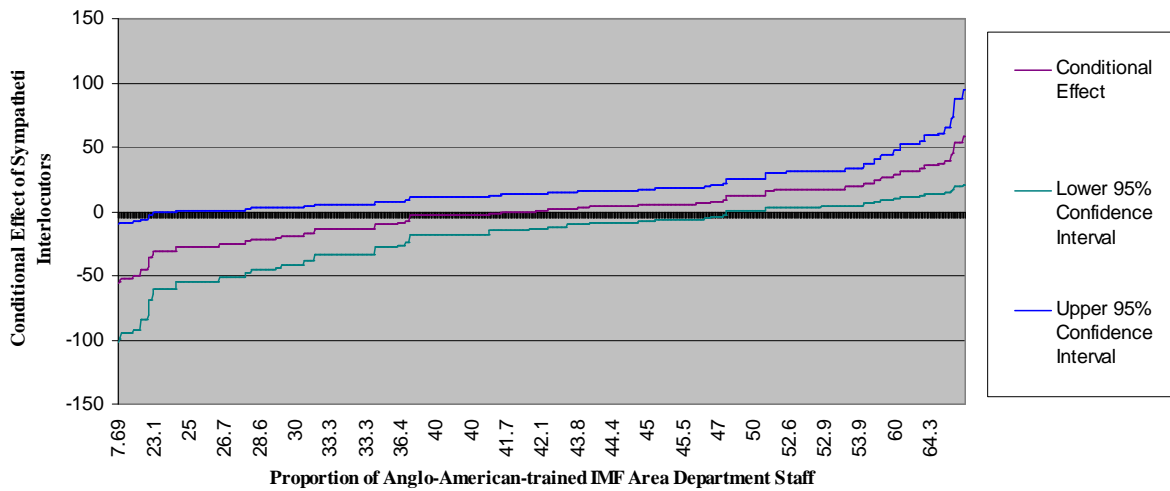
Notes: Robust standard errors in parentheses. \*\*p<.05.



**Figure 2. Professional Characteristics of IMF Interlocutors By Region**



**Figure 3. Effects of Sympathetic Interlocutors Conditional on Professional Characteristics of IMF Area Department Staff**



**Figure 4.** *Effects of Professional Characteristics of IMF Area Department Staff Conditional on Sympathetic Interlocutors*

