

POL 396: International Organization

Precept 2

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Precept Resources

<https://jingqian.org/pol396>

- Feedback form
- Office hour appointment
- Precept slides
- ... and more

Agenda

- Nunn & Wantchekon (2011)
- Who controls the IMF?
- The politics of the IMF

Basics of Social Science Research

- **Dependent Variable (Y):** The consequence/phenomenon of interest.
- **Independent Variable (X):** The cause/phenomenon that leads to Y.
- **Unit of Analysis** (individual, company, country, etc.)

Most of the time we are interested in $X \rightsquigarrow Y$

Nunn & Wantchekon (2011)

Slave Trade and the Origins of Mistrust in Africa

Abstract

We show that current differences in trust levels within Africa can be traced back to the transatlantic and Indian Ocean slave trades. Combining contemporary individual-level survey data with historical data on slave shipments by ethnic group, we find that individuals whose ancestors were heavily raided during the slave trade are less trusting today. Evidence from a variety of identification strategies suggests that the relationship is causal. Examining causal mechanisms, we show that most of the impact of the slave trade is through factors that are internal to the individual, such as cultural norms, beliefs, and values.

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Comparison

Compare the outcome of units with different characteristics

- Compare Y_1 and Y_2 with different X_1 and X_2
- Compare individuals' trusting levels for those

whose ancestors were more/less heavily raided during the slave trade.

This might or might not imply a causal relationship ($X \rightarrow Y$)

Why do we need the IMF?

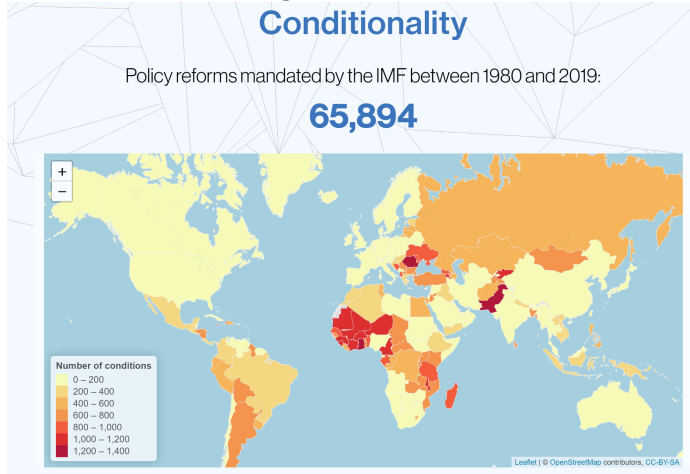
- Background
 - Trilemma
 - Gold standard
 - Beggay-thy-neighbor
- IMF to avoid Beggay-thy-neighbor policies
 - By providing much-needed loans (foreign currency) to soften adjustment

What is the IMF?

- Like an international “credit union”
 - International: 190 members
 - “Credit Union”: Each contribute (hold currency on reserve)
 - The IMF can use these reserves to provide loans
- What might be the problem?
 - Moral Hazard
- How to solve it?
 - Conditionality
- IMF programs = loans + conditions

Conditionality

See <https://imfmonitor.org/conditionality/>



Conditionality

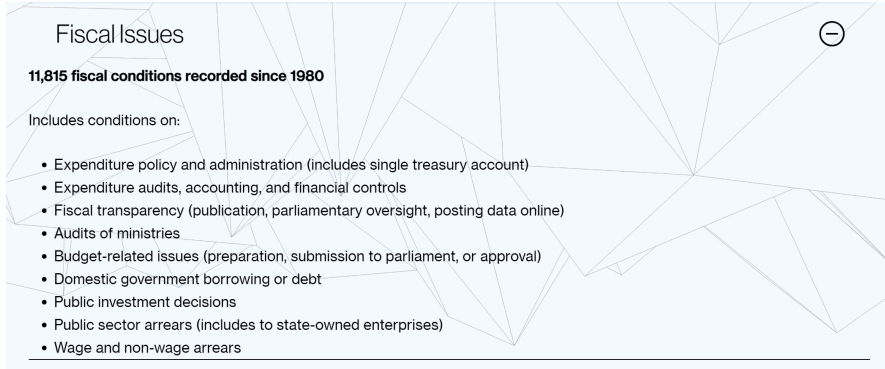
See <https://imfmonitor.org/conditionality/>



External Debt Issues	⊕
Financial Sector, Monetary Policy & Central Bank Issues	⊕
Fiscal Issues	⊕
External Sector (Trade & Exchange System)	⊕
Revenues & Tax Issues	⊕
State-Owned Enterprise Reform & Pricing	⊕
Labour Issues (Public & Private Sector)	⊕
State-Owned Enterprise Privatisation	⊕
Redistributive Policies	⊕
Institutional Reforms	⊕
Social Policy	⊕
Land & Environment	⊕

Conditionality

See <https://imfmonitor.org/conditionality/>

A screenshot of the IMF Monitor website's 'Conditionality' page. The page has a light blue background with a faint geometric pattern of lines and triangles. At the top left, the text 'Fiscal Issues' is displayed. To its right is a circular icon containing a minus sign. Below 'Fiscal Issues', the text '11,815 fiscal conditions recorded since 1980' is shown. Further down, the phrase 'Includes conditions on:' is followed by a bulleted list of nine items. A horizontal line is positioned at the bottom of the list.

Fiscal Issues

11,815 fiscal conditions recorded since 1980

Includes conditions on:

- Expenditure policy and administration (includes single treasury account)
- Expenditure audits, accounting, and financial controls
- Fiscal transparency (publication, parliamentary oversight, posting data online)
- Audits of ministries
- Budget-related issues (preparation, submission to parliament, or approval)
- Domestic government borrowing or debt
- Public investment decisions
- Public sector arrears (includes to state-owned enterprises)
- Wage and non-wage arrears

Who controls the IMF?

- Voting power determined by contributions (quota)
 - Voting Power: <https://www.imf.org/en/About/executive-board/members-quotas>
 - Quotas: <https://www.imf.org/en/About/Factsheets/Sheets/2022/IMF-Quotas>
- Quota set by 85% majority rule
- Most other decisions by simple majority rule (consensus)

IMF quota formula

$(0.50 * GDP + 0.30 * Openness + 0.15 * Variability + 0.05 * Reserves)$ COMPRESSION FACTOR

Consensus?

U.S. Votes on IMF Programs

Quarterly Report to Congress on International Monetary Fund Lending

October 1 – December 31, 2023

Board Approval Date	Country	Amount	Type	U.S. Position	Background
11/15	Malawi	SDR 131.86 million US\$ 175 million	Request for an Arrangement Under the Extended Credit Facility	Support	IMF Executive Board Discussed the Second Review under Malawi's Staff Monitored Program with Executive Board Involvement and Approved a 48-month Arrangement under the Extended Credit Facility
11/15	Mexico	SDR 26.7381 billion US\$ 35 billion	Request for an Arrangement Under the Flexible Credit Line	Support	IMF Executive Board Approves New Two-Year US\$35 Billion Flexible Credit Line Arrangement with Mexico
11/19	Guinea-Bissau	SDR 11.36 million US\$ 15.18 million	Third Review Under the Extended Credit Facility Arrangement and Request for Augmentation of Access	Support	IMF Executive Board Completes the Third Review of the Extended Credit Facility Arrangement for Guinea-Bissau and Approves US\$8.2 Million Disbursement
12/6	Moldova	SDR 129.375 million US\$ 173 million	Request for an Arrangement Under the Resilience and Sustainability Facility	Support	IMF Executive Board Concludes 2023 Article IV Consultation and Fourth Reviews Under the Extended Credit Facility and Extended Fund Facility Arrangements and Approves Request for Arrangement Under the Resilience and Sustainability Facility
12/11	Cabo Verde	SDR 23.69 million US\$ 31.45 million	Request for an Arrangement Under the Resilience and Sustainability Facility	Support	IMF Executive Board Concludes the Third Review of the Extended Credit Facility Arrangement and Approves US\$31.45 Million

The politics of the IMF

- Domestic politics
 - Chief Executive vs. Veto Player (e.g., president vs. congress)
 - Chief executive might favor economic reforms
 - But veto player might oppose (and block) it
 - How could the IMF help?
- International politics
 - Conditionality to solve moral hazards
 - If do not comply, pause/stop future loan tranches
 - But the “threat” must be credible

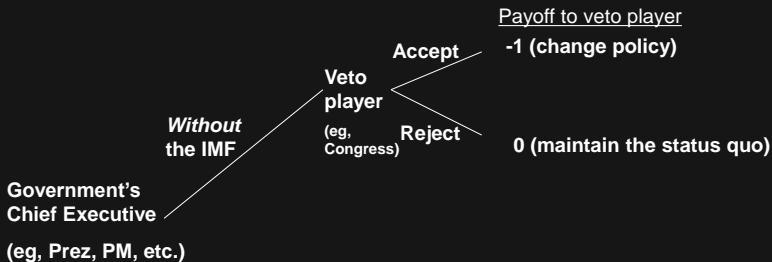
How does bringing in the IMF help push through economic reform?

Figure 1: The logic of bringing in the IMF

Government's
Chief Executive
(eg, Prez, PM, etc.)

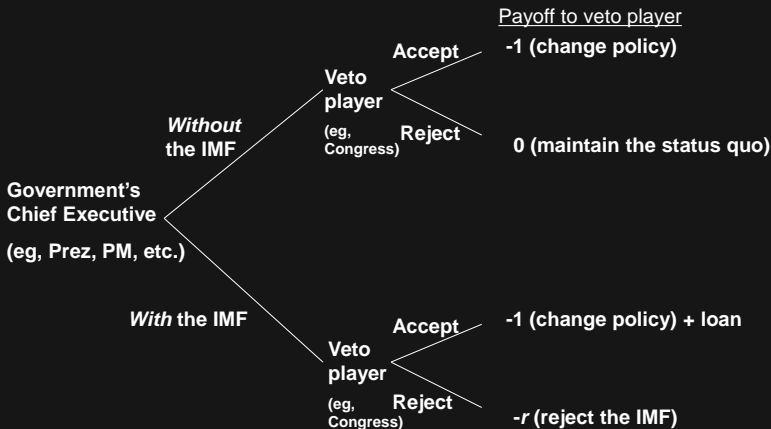
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Figure 1: The logic of bringing in the IMF



How does bringing in the IMF help push through economic reform?

Figure 1: The logic of bringing in the IMF



Note that $0 < \text{loan} < 1$

$-1 \leq r \leq 1$, but for most countries $0 < r \leq 1$

The story also requires:
A commitment that is
CREDIBLE!!!!



SPOILER ALERT!

Entering into IMF Programs:

The effect of domestic politics depends on international politics

