Cheerleading for Policy Goals: The International Monetary Fund Capital Account Liberalization in Emerging Markets

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Abstract

A burgeoning literature suggests IOs exert considerable influence on policymaking in emerging markets through conditionality and "teaching." I argue that IO influence extends beyond these mechanisms to include "cheerleading." Cheerleading entails the provision of information to encourage a particular policy in cases where there is already a pre-existing domestic inclination for that policy. This information helps to reduce uncertainty and cajole domestic opponents, thus facilitating reform. I explore the influence of IMF advice and lending on capital account policy in emerging markets to assess the impact of conditionality, teaching, and cheerleading. Using a new data set that codes the professional training of 472 IMF staff as well as archival evidence and extensive interviews, I explore and test the evolution and influence of the Fund's prescriptions for liberalizing capital controls. I find that the IMF can on occasion be significant in influencing the decision to liberalize via cheerleading.

Paper prepared for presentation at the Conference on the Political Economy of International Organizations, Centro Stefano Franscini, Monte Veritá, Switzerland, 3 – 8 February 2008. An earlier version of this paper was presented at the Annual Meeting of the American Political Science Association, Philadelphia, PA 31 August – 3 September 2006.

A burgeoning literature suggests that IOs exert considerable influence on policymaking in emerging markets. An increasingly prominent current in this literature underscores the importance of IOs in transmitting new norms and ideas (Finnemore 1996; Kelly 2004; Checkel 2005). To understand the diffusion of norms and ideas, researchers have devoted particular attention to the role of conditionality and "teaching." Yet conditionality and teaching do not fully capture the diffusion mechanisms at the disposal of the IMF. IOs use not only incentives and teaching but also "cheerleading" to promote norms and ideas.

However, the literature has paid relatively little attention to theorizing or addressing the role of cheerleading. Cheerleading entails the provision of information to encourage a particular policy in cases where there is already a pre-existing domestic inclination for that policy. As I detail further below, cheerleading can serve to reduce uncertainty or marginalize and cajole domestic opponents. In both cases it serves to overcome obstacles that impede reforms.

I explore the influence of IMF advice and lending on capital account policy in emerging markets to assess the impact of conditionality, teaching, and cheerleading. The liberalization of capital controls in emerging markets – a process known as capital account liberalization – provides an ideal opportunity to assess the impact that IOs have on policy. Traditionally, emerging markets tended to rely on capital controls. However, the late 1980s through the mid 1990s saw a dramatic wave of liberalization. As I detail further below, this wave of liberalization was preceded by an informal turn within the IMF to encouraging liberalization.

Empirically, this study diverges from previous work in a number of ways. Most work on norms and ideas relies on methods that fail to address "how much" these factors matter relative to other factors (Parsons 2002). Here quantitative methods can prove quite useful, helping researchers overcome objections about the relative importance of social factors for a particular outcome (Chwieroth 2007a). I thus begin by examining time-series cross-sectional data on 54 emerging markets from 1977 to 1998 to assess the relative importance of the Fund's dissemination of norms and ideas prescribing liberalization. Here I use a new data set that codes the professional training of 472 IMF staff to trace the evolution and influence of the rise within the Fund of norms and ideas prescribing liberalization. Diverging and improving on previous work, I use these data to disaggregate the Fund as a unit and examine the relative influence of its constituent parts (i.e. departments).

Quantitative methods, while ideally suited for assessing the Fund's relative importance, are less amenable to answering questions as to how the Fund actually mattered. Such an examination necessitates the use of qualitative methods to trace the processes associated with conditionality, teaching, and cheerleading. I therefore complement the quantitative results with case illustrations that draw on archival evidence, interviews, the IMF's official histories, and the vast secondary literature on the Fund.

I find the IMF had a significant impact on capital account policy in emerging markets. However, the mechanism and region of influence appears limited to cheerleading in Latin America. I attribute this finding to a number of factors on both the norm-maker (i.e., Fund) and norm-taker (i.e. country) side of policymaking. On the norm-maker side, contrary to the conventional wisdom, I show that the Fund never took a uniform position on liberalization. While some Fund staff took up the cause of liberalization with great enthusiasm, others were more cautious. In addition, the Fund's internal incentive structure may have given rise to a tendency among the staff to be insufficiently frank, direct, and critical in their assessment of a country's policies. Both factors would result in some staff members making at best moderate recommendations for liberalization.

On the norm-taker side, I suggest that political obstacles, such as veto players and interest groups, and failure to resonate with domestic norms likely impeded the Fund's influence. Yet perhaps the most significant factor on the norm-taker side is the presence of domestic policymakers with similar professional training. As I explore further below, the evidence suggests that this factor often represents a double-edged sword. On the one hand, similar professional training can lead the Fund staff and domestic policymakers to possess shared understandings, diagnoses, and policy prescriptions, thus enabling the Fund to provide encouragement for the initiatives of these policymakers. On the other hand, the technical and analytical sophistication that some policymakers possess as result of this training can make them less deferential to the Fund's technical expertise.

The rest of the paper proceeds as follows. The first part traces the ascendance within the Fund of views prescribing the liberalization of capital controls. The second part theorizes the mechanisms through which the Fund likely diffused these views. The third part tests these mechanisms empirically. The final part summarizes the findings and suggests important implications.

The Ascendance of the Norm of Capital Account Liberalization within the Fund

The IMF was created at the Bretton Woods Conference in 1944 to provide stability for the international financial system. The designers of the Fund crafted its formal rules so as to ensure that states would be given the autonomy to manage the domestic economy and maintain a fixed exchange rate. The origins of these rules can be traced to an ideational consensus based on the lessons of the interwar years, which for most policymakers and academics had demonstrated the benefits of fixed exchange rates and the need for the freedom to pursue expansionary macroeconomic policies (League of Nations 1944).

The interwar years had also demonstrated that short-term capital movements were to be controlled. As opposed to long-term capital flows, short-term flows were seen as inherently volatile and likely to undermine new welfare state commitments and macroeconomic planning measures (Helleiner 1994:31-38). Controls thus were seen as an essential policy tool to manage this volatility and the Bretton Woods delegates explicitly gave member state the right to use controls. IMF staff members, many of whom were initially drawn from national delegations to Bretton Woods, shared this scepticism of unregulated capital movements (Horsefield 1969b:224).

In the immediate post-war years the use of controls was widespread and capital mobility was generally curtailed. The decades of the 1950s and 1960s then saw gradual liberalization among advanced market economies and heightened capital mobility. Some states, such as the United States and West Germany, now tended to view controls as a nonessential feature of the international financial system (Horsefield 1969b:292, 540).

Yet, the Fund staff continued to view short-term flows as "undesirable" and in cases where governments imposed controls they could expect "no disagreement…between the Fund and member states."[1] In instances where states were faced with surges of capital – either inflows or outflows – the staff tended to recommend some form of controls. For example, in 1950, Edward Bernstein, then director of the IMF's Research Department, argued that Canadian policymakers should employ controls on inflows rather than moving to a floating rate (Helleiner 2006). However, rising capital mobility did lead the staff to become increasingly concerned about the waning effectiveness of controls.[2]

As the pressure from heightened capital mobility escalated throughout the 1960s, new forms of cooperation, such as the Gold Pool and the introduction of "swaps," arose among advanced market economies to limit and to offset the impact of short-term capital flows. The

[1] "Capital Controls," page 30, Prepared by J. Swidrowski, 1955, CF/S331/CapitalTransfers1946-1955 (IMF ARCHIVES). "Identification of Capital Control Measures," page 6, Prepared by Exchange Restrictions Department, 18 January 1956, CF/S331/CapitalTransfers1956-1959 (IMF ARCHIVES).
[2] "Capital Controls," page 23, (IMF ARCHIVES). "Paper on Capital Controls and Movements in Thirteen Selected Countries," page 1, Prepared by J. Swidrowski, 6 June 1956, CF/S331/CapitalTransfers1956-1959 (IMF ARCHIVES). "Memorandum to the Capital Movements Committee," Author Unknown, 12 April 1960, CF/S331/CapitalTransfers1960-1970 (IMF ARCHIVES).

Bretton Woods delegates had crafted the Fund's Articles to ensure that controls would be utilized to manage capital outflow surges rather than permitting states to draw on the Fund's limited resources. In 1961, this provision was reinterpreted to permit the financing of capital outflow surges, largely due to the initiative of then Managing Director Per Jacobsson.[3] This reinterpretation was soon followed by creation of the General Arrangements to Borrow, which significantly enhanced the Fund's capability to finance capital flows.

In this environment, the Fund staff generally continued to view short-term flows as inherently volatile and prone to self-fulfilling speculative attacks that "lead to an unnecessary or exaggerated devaluation of the currency concerned."[4] However, by the early 1960s, rather than favoring the use of controls to manage capital surges, the staff tended to recommend orthodox adjustment measures and the use of offsetting measures, such as IMF resources or "swaps."[5] In the view of the staff, such a strategy would permit states to avoid the use of controls and enable them to continue to enjoy the benefits that certain capital flows provided. The staff's views thus reflected a hybrid position, but one that leaned slightly more toward favoring controls.[6]

The closing of the gold window in 1971 led to several rounds of reform negotiations. Amongst the Fund's member states there were conflicting views about the place of controls in the reformed system (De Vries 1985a: 129; 1985b: 47, 48, 50). In these negotiations, whereas the Europeans, Japanese, and then IMF Managing Director Pierre-Paul Schweitzer supported the use of controls, U.S. policymakers began for the first time to advocate for their removal (De Vries 1985a: 18, 132, 136-137, 167, 192; Helleiner 1994:107)

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[3] Chwieroth (2008a) provides a fuller treatment of this reinterpretation.

[4] "Capital Movements and the Use of Fund Resources," Prepared by the Exchange Restrictions and Research Departments, 20 June 1961, SM/61/57, p. 6 (IMF ARCHIVES).

[5] "Capital Movements and the Use of Fund Resources," page 6, 8 (IMF ARCHIVES).

[6] In an Executive Board meeting on the issue, Jacques Polak, then Director of the Fund's Research Department, noted that the Fund staff would favor the use of controls over adjustment measures. See Executive Board Meeting 61/37, 7 July 1961, p. 21 (IMF ARCHIVES).

The result of the reform negotiations was agreement on a compromise position: capital controls would continue to play a role in the post-Bretton Woods system, but there would also be limits on their use for balance of payments reasons (De Vries 1985b:490-491; IMF 1974:12-13, 79, 84-86, 89). Reflecting the strength of the U.S. position, the IMF's Articles were amended in 1976 to make one of the essential purposes of the international monetary system to promote the free exchange of capital (De Vries 1985b:381-382). U.S. policymakers also successfully pushed through a 1977 Board decision that directed the staff to initiate special consultations with a member state if capital controls were introduced for balance of payments reasons.[7] Yet these changes to the Fund's formal rules had little operational significance for the staff and failed to lead them to encourage liberalization (Chwieroth 2007a).

In the 1980s, in the absence of directives from IMF management or member states, the staff first began to question the legitimacy of controls and emphasize the desirability of liberalization. Although capital account issues were not the principal focus of the Fund during this period, IMF reports show a definite shift toward viewing liberalization favourably. Contrary to the conventional wisdom, I show elsewhere that the Fund's informal shift to encouraging liberalization did not result from IMF management, pressure from U.S. policymakers, or the private financial community (Chwieroth 2007a; 2008a; 2008b). The preferences of the IMF management, the Fund's principal shareholders, and the private financial community played at best a supporting or reinforcing role. Instead, one of the critical mechanisms driving this informal shift was personnel changes among senior IMF staff. Beginning in the mid-1980s, the staff that had joined the Fund in 1940s and early 1950s began retiring in large numbers. Individuals who had joined the Fund in the 1960s and early 1970s and had been trained in economics when new ideas about the inappropriateness

[7] Executive Board Decision 5392-(77/63), 29 April 1977. See De Vries (1985c:493) for text of decision.

of controls and the desirability of liberalization were predominant subsequently replaced these senior staff members.

In contrast to earlier periods, the Fund staff now increasingly said that controls were ineffective, harmful to economic performance, and not a substitute for adjusting policy measures that were driving disequilibrating capital flows. During the 1980s the Fund staff also jettisoned views that stressed the inherent volatility of short-term capital flows, replacing them with what a recent IMF Independent Evaluation Office report describes as a "'fundamentalist' view of international capital flows (IEO 2005:24). In the context of the debt crisis, the Fund staff tended to applaud any measures that gave emerging markets greater access to capital markets and to devote relatively little attention to the policy challenges capital flows might pose.

Although the views of the Fund staff were not monolithic, the informal norms the staff promoted as to what constituted the boundaries of acceptable policy had clearly shifted from those advanced in earlier periods. Whereas in earlier periods controls were viewed as an essential part of the international financial architecture, now no one on the staff doubted the long run desirability of liberalization. Rather, the key points of debate inside the Fund surrounded the pace and sequencing of liberalization and the role of *temporary* controls.

Two broad positions developed. The first position to develop, the gradualist approach, argued that controls and policies associated with financial repression should be removed gradually and only in the wake of other policy reforms, such as fiscal consolidation, domestic financial liberalization, and current account liberalization. Capital account liberalization was to occur at the end of this sequence of reforms. Some gradualists also highlighted the importance of adequate prudential regulations for the domestic financial sector in the context of liberalization (IMF 1992:28, 1993:79-80). Yet initially the IMF staff generally failed to fully appreciate the importance of this vital precondition for liberalization (IEO 2005a:4, 5).

Instead of emphasizing the importance of preconditions, pace, and sequencing, the Fund staff's general approach, particularly until the mid-1990s, was to emphasize rapid liberalization. Advocates of the "big-bang" approach promoted this strategy vigorously within the Fund. The principal advocates were generally found in what was then called the Monetary and Exchange Affairs Department (MAE), and in particular, its outspoken director, Manuel Guitian. Guitian and other proponents of the big-bang approach argued that political economy concerns, such as resistance from vested interests, made early and rapid liberalization the best route to market reform (Guitian 1995). The ineffectiveness of controls was also said to make sequencing arguments irrelevant. Finally, big-bang proponents claimed that prudential regulations were not an essential precondition for liberalization, as market discipline would ensure that governments stepped up efforts to enhance regulations.

Despite their differences of view, the gradualists and big-bang supporters shared a strong scepticism of controls on outflows. Staff reports cast doubt on claims that such controls could support an independent monetary policy, preserve domestic savings, and help manage the balance of payments (Mathieson and Rojas-Suarez 1993; Johnston and Ryan 1994). Evidence from staff studies also emerged showing that liberalization of outflows led to a strengthening rather than, as traditionally viewed, a weakening of a country's balance of payments position (Johnston and Ryan 1994).

The consensus on outflow controls did not extend to controls on inflows. At the centre of the debate was Chile's introduction of market-based controls on inflows in 1991 (discussed further below). Like controls on outflows, big-bang supporters tended to view such measures as generally failing to offer a substitute for the required adjustments in macroeconomic policies (Schadler et al. 1993; Mathieson and Rojas-Suarez 1993:2, 19).

Big-bang proponents thus initially framed their analysis of the Chilean controls as a policy designed to imperfectly substitute for exchange rate appreciation and fiscal adjustment. Staff evaluations suggested the effectiveness of such controls would prove short-lived and that additional measures would need to be introduced to maintain the same level of control, thus introducing further distortions.

Gradualists, however, sought to make a case for temporary market-based controls on inflows. Research department staff members, such as Michael Mussa, then the director of the department, and Guillermo Calvo, developed a strategy of framing such measures not as controls, but as "prudential measures" to safeguard the domestic financial system.[8] Mussa and Calvo's position was also supported by a number of the staff in the Policy Development and Review Department.[9]

The efforts of the gradualists were aided somewhat by the Mexican peso crisis in 1994-1995, which partially resulted from efforts to liberalize in the context of weak prudential supervision. Although the predominant interpretation within the Fund attributed the crisis to unsustainable macroeconomic policies, the crisis did make some staff members more aware of the risks of inadequate sequencing and the possibility that temporary controls could play a useful purpose in some circumstances (Goldstein 1995:39).[10] After the Mexican crisis, the staff also became increasingly aware of the positive effects of the Chilean controls, particularly in lengthening the maturity of inflows, which in turn was seen as helping to minimize vulnerabilities to the domestic financial sector. Although the general consensus within the Fund remained that controls were distortionary, that their effectiveness waned over time, and that they were not a substitute for policy adjustments, there was now

[8] Author Interviews with Michael Mussa, Director [1991 – 2001], RES, IMF, Washington, DC, 6 June 2005. See also Calvo et al. (1992).
[9] Executive Board Seminar 93/3, 21 July 1993, p. 49, 51 (IMF ARCHIVES); Executive Board Seminar 93/4, 21 July 1993, p. 12 (IMF ARCHIVES).
[10] Author's Interview with Morris Goldstein, Staff [1970 – 1994], RES, IMF, Washington, DC, 19 May 2005.

increased support for the claim that "such measures may be justified on prudential grounds and on a temporary basis" (Quirk and Evans 1995:4).[11]

By July 1995 the IMF staff had been encouraging liberalization informally, though not indiscriminately, for nearly a decade.[12] It was at this time that the Fund's Management and its principal shareholders offered their first operational guidance to the staff, directing them to cover capital account issues more fully and to strengthen their work with member states to encourage and support liberalization.[13] The Fund's member states also began to consider amending the Fund's formal rules to give the Fund the mandate to promote liberalization and jurisdiction over the capital account. The Fund's member states, however, remained divided on the place of controls in the international financial architecture. The staff meanwhile continued to encourage liberalization on a case-by-case basis with greater attention to sequencing and the importance of prudential regulations.

Between April and October 1997, efforts to amend the Articles reached their peak. The initial events of the Asian crisis in Thailand in July did little to dampen enthusiasm for the proposed amendment. Indeed, at the Fund's September meetings, the commitment to the amendment was reaffirmed.[14] The subsequent spread of the crisis, however, to Korea, Indonesia, and then to Brazil and Russia greatly dampened the enthusiasm for liberalization among the member states and the staff. The events in Asia and elsewhere led the member states to suspend consideration of the amendment indefinitely.

The Malaysian government's implementation of controls on outflows in September 1998 in the midst of the crisis was a significant moment in the debate within the Fund. By

[11] See also Quirk and Evans (1995:22-23) and Folkerts-Landau and Ito (1995:27, 108).

[12] See "Capital Account Convertibility – Review of Experiences and Implications for Fund Policies," pages 8-12, 13 Prepared by MAE and PDR, 7 July 1995, SM/95/164 (IMF ARCHIVES); "Capital Account Convertibility – Review of Experiences and Implications for Fund Policies – Background Paper," pages 16, 21 – 30, Prepared by MAE and PDR, 7 July 1995, SM/95/164 Supplement 1 (IMF ARCHIVES); "Review of Experience with Capital Account Liberalization and Strengthened Procedures Adopted by the Fund," pages 31-40; Prepared by MAE, PDR, and RES, 6 February 1997, SM/97/32 Supplement 1 (IMF ARCHIVES).

[13] "Review of Experience with Capital Account Liberalization and Strengthened Procedures Adopted by the Fund," pages 29-40.

[14] IMF Press Release #97-44, 21 September 1997 and *IMF Survey* 6 October 1997, p. 302-303.

this time, the Asian crisis had already swept through Thailand, Indonesia, South Korea, the Philippines, and Russia, all of whom approached the Fund for programs. Rather than approach the Fund for assistance, the Malaysian government imposed controls on outflows.[15] The controls were designed to lessen pressure on the exchange rate and to restore a degree of monetary independence so that the central bank could lower interest rates to reflate the economy.

The introduction of these controls was clearly outside the boundaries of acceptable policy as defined by the Fund. The Fund tended to view the crisis as triggered by a mix of unsustainable policies, inadequate prudential supervision and transparency, as well as political uncertainty (IMF 1997:14, 86; 1998a:3, 16-18, 101-102; 1998b:6, 11, 57, 63, 73, 148-150). This interpretation, however, tended to obscure the international sources of the crisis, in particular the inherent volatility of short-term capital flows. Malaysia's controls were thus not recognized as a legitimate means for managing pressures from the crisis (Adams et al. 1998:6, 18; IEO 2005a:76; IMF 1999a:54-56).

Still, within parts of the academic community as well as the World Bank there was what Robert Wade and Frank Veneroso (Wade and Veneroso 1998) described as "the gathering support for capital controls." Reflecting a return to some of the views expressed at Bretton Woods, rival interpretations were advanced that pointed to the inherent volatility of short-term capital flows (World Bank 1998a:16; 1998b:xi; Stiglitz 1998; Radelet and Sachs 1998). As a result, an increasing number of academics expressed support for some controls on capital flows (Bhagwati 1998; Krugman 1998; Wade 1998/1999).

After a period of decline in 1998 the Malaysian economy experienced robust growth the following two years and the controls were removed in February 2001. By 1999, the Fund staff's views became more accommodating of the controls, recognizing that they had

[15] For a detailed discussion of the Malaysian episode, see Alfaro and Abdelal (2003).

been effective in creating a temporary "breathing space" that the Malaysians used to implement structural reforms (IEO 2005:76; IMF 1999a:97-100). Although the debate on the Malaysian controls remains unsettled, their ultimate significance was to undermine the view that controls on outflows were ineffective and to demonstrate the effective use of such controls was feasible, if only under a limited set of conditions.

Since the Asian crisis, the Fund staff have devoted significant resources to better understand the optimal preconditions and sequencing for liberalization.[16] Some within the Fund also appear sympathetic to the view that crises are driven at least in part by the inherent volatility of short-term flows.[17] Yet considerable ambiguity remains as to the Fund's formal policy on liberalization. At a May 2005 meeting on the issue, member states remained divided on the importance of preconditions and sequencing. However, the general consensus among the Fund staff appears to be that "capital account liberalization should remain the ultimate goal, but the pace at which it can be achieved will vary significantly" (IMF 2001:170).

Theorizing the IMF's Influence

How can we understand the influence of the IMF's emphasis on the desirability of liberalization on state behaviour? The conventional wisdom sees the IMF's influence as coercive, compelling states to liberalize via the conditionality accompanying IMF programs (Stiglitz 2002). States facing economic crisis and in need of financing were said to have had liberalization imposed on them as a condition for the Fund providing financial support.

The conventional wisdom aligns well with rationalist institutionalist theory, which focuses on how IOs regulate behaviour by shaping the incentive structure and information environment in which policymakers operate (Simmons and Martin 2002). The IMF has a range of resources available at its disposal to regulate behaviour. For instance, the Fund

[16] See, for instance, Ishii et al. (2002).
[17] See, for instance, Gelos and Wei (2002).

helps monitor compliance, provide information, and reduce transaction costs by undertaking surveillance of its members' economic policies. But it is conditionality that is perhaps the Fund's most important and controversial regulative resource.

Some analysts view IMF programs as "leverage" or a "bargaining chip" in strategic interactions with policymakers (Stallings 1992:55-59; Kahler 1992:101-113). In this view the Fund's influence engages domestic policymakers directly and offers financial support in exchange for specified policy changes, threatening to withdraw aid if these conditions are not fulfilled. Policymakers then alter their behaviour due to concerns that reneging will endanger future lending. Other analysts view IMF conditionality as a device that policymakers employ to demonstrate to international capital markets their commitment to a particular policy orientation. This demonstration is seen as likely to generate a "catalytic effect" that leads to additional private capital inflows. Here the Fund is not imposing its views on "unwilling" policymakers. Rather policymakers are using the Fund's imprimatur to enhance their credibility.

However, these views offer only a limited understanding of the Fund's influence. Moreover, these views offer an inaccurate characterization of how the Fund actually encouraged liberalization. It should first be noted that the Fund's Articles legally forbid it from requiring capital account liberalization as formal conditionality and that not a single program during the period under investigation included liberalization as a policy requirement (IEO 2005a:31-32). Governments may include liberalization in their letter of intent that accompanies their IMF program, but such statements represent policymaker intentions and failure to meet these intentions cannot be employed to withhold financing. Emerging market policymakers, such as those in Mexico (discussed below), were well aware of the legal limits on the Fund's authority and were quick to point these out to staff members who were seen as being overly enthusiastic for liberalization.[18]

Moreover, even if hypothetically an attempt was made to impose liberalization, the evidence on non-compliance with Fund programs suggests the IMF can seldom dictate policy choices to member states (Killick 2002). Political pressures and bureaucratic incentives often undermine the Fund's ability to enforce conditionality (Woods 2006). Finally, evidence for the catalytic effect that Fund programs supposedly provide is weak at best, suggesting that the Fund's imprimatur offers little to policymakers in terms of additional private capital flows (Mody and Saravia 2003).

Although negotiations over a program provide the Fund with considerable leverage, if Fund programs are associated with liberalization then more subtle forms of influence are likely at work. Here a turn to constructivist insights proves quite useful. In contrast to rationalist institutionalists, constructivists point to the constitutive role that IOs play in defining the boundaries of legitimate policy practice for a given actor (Barnett and Finnemore 2004). These constitutive norms in turn define interests.

From this theoretical vantage point, the Fund's formal and informal rules can been seen to not only regulate behaviour but also delineate the boundaries of legitimate policy practice for "market economies" and "good governance." The IMF staff's informal turn to encouraging liberalization served to redefine these boundaries. As suggested, the IMF staff redefined capital controls from being a solution to problems (i.e. how to ensure exchange rate stability and domestic policy autonomy) to being the problem itself (i.e. damaging to economic welfare). In classifying capital controls as an inappropriate policy instrument, the IMF staff also altered the meaning of what constituted a "market economy" as well as "good governance." Whereas prior to the mid-1980s capital controls signalled both a market

[18] Author's Interview with Aziz Ali Mohammed, Advisor to G-24, IMF, Washington, DC, 2 June 2005.

economy and good governance, liberalization came to define such “social kinds” from the mid-1980s onwards.

What is critical for constructivists then is the ability of IOs to define the social environment in which states operate; that is, to exert constitutive effects, and their capability to diffuse these norms and ideas. This diffusion can take several forms. As discussed, one form is bargaining and the use of incentives and inducements, such as conditionality, to alter behaviour so that it conforms to IO norms.

Another form is teaching via persuasion (Finnemore 1996; Jacoby 2001). Here the mechanism driving policymakers’ acceptance of norms is one of social learning where policymakers are exposed to new information, norms, and ideas that subsequently lead them to adopt new interests. Teaching occurs in the absence of material incentives or inducements and is characterized as a process where both the problem and strategies for solving it come from IOs and the individuals who staff them. IOs are thus the impetus for behavioural change. In instances of teaching, behavioural change would not have occurred if it had not been for a particular action by an IO.

Yet teaching does not fully capture the persuasive mechanisms at the disposal of the IMF and other IOs. In some instances, the initial impetus for behavioural change may come from within a state due to initiatives from domestic policymakers or interest groups. But this impetus may fail to translate into policy changes due to uncertainty about the effects of future policy changes or opposition from other policymakers or interest groups. In these instances, the IMF can play a critical role as a “cheerleader” as opposed to a teacher.

The effects of cheerleading take at least two forms. One form involves cases where uncertainty persists. When governments face uncertainty they turn to actors with recognized expertise and competence in a particular domain, such as the IMF (Haas 1992; Barnett and Finnemore 2004). In such cases the provision of new information through cheerleading can reinforce pre-existing weak or moderate preferences for a particular course of action. Policymakers may have a weak inclination that liberalization is desirable or beneficial and even take some policy measures in that direction but uncertainty prevents them from going further. Here the Fund's policy advice, backed by its technical expertise and resources, can serve to reduce uncertainty and accelerate reforms.

The Fund staff often engage in a concerted effort to convince policymakers of the desirability of reform. This effort can involve informal discussions with national policymakers. It also usually entails the presentation of studies, with technical data supporting arguments in favor of reform and thematic conferences and seminars, such as one held in Tunisia in 1995, in which Fund staff and international experts speak in favor of liberalization.[19]

Another form of cheerleading involves instances where opposition from policymakers or interest groups blocks the initial impetus for reform. In these cases, the Fund's influence often depends on the presence of policymakers that share the Fund's policy preferences. The Fund therefore must seek out sympathetic policymakers or persuade other policymakers that specific policies must be undertaken.

Negotiations and discussions for an IMF program can serve to strengthen the position of sympathetic policymakers against their opponents (James 1996:133; Woods 2006). Former IMF First Deputy Managing Director Stanley Fischer notes that the IMF staff often deliberately use such negotiations and discussions to strengthen the position of sympathetic policymakers (Fischer 1997:26).[20] The negotiations and discussions as well as the annual consultations held outside of IMF programs (discussed below) tend to be limited to a small, relatively insulated group of policymakers in the Finance Ministry and Central Bank, thus privileging these actors with access. Even if the discussions do not involve capital account

[19] Author's Interview with Abdelali Jbili, Tunisia Mission Chief 1994-1995, MENA, IMF, Washington, DC, 7 July 2005.
[20] See also Kahler (1992:126).

liberalization per se, the position of sympathetic policymakers who might support it is bolstered by the fact they are the only policymakers with full information about the discussions and the views of the Fund staff. This gives sympathetic policymakers a privileged gatekeeping role vis-à-vis the rest of the government, empowering those individuals with whom the IMF staff deal most directly. Sympathetic policymakers can thus use this access to marginalize or cajole opponents.

Additionally, an IMF program can also represent an institutionalized channel for frequent communication and interaction between the IMF staff and policymakers. The high rate of non-compliance with Fund programs has led a number of analysts to conclude that commitment to a particular policy orientation can be bolstered only by persuading policymakers of the appropriateness of a given course of action rather than by imposing it (Kahler 1992:123-131; Bird 1996:494-495; Killick 1996:225-228). The "policy dialogue" that accompanies Fund programs is thus a critical mechanism the staff employ to construct a domestic consensus about appropriate policy (James 1995:775-776; Killick 1996:226).

Policy dialogue can entail elements of teaching as well as cheerleading. For instance, persuasion of unsympathetic policymakers who had no inclination toward a particular policy orientation would suggest teaching. On the other hand, reinforcing the weak or moderate inclinations of policymakers toward a particular orientation or enhancing the persuasiveness of arguments of sympathetic policymakers against their opponents via the provision of technical support suggests cheerleading.

As indicated, policy dialogue can also take place via channels outside IMF program negotiations and discussions. Technical assistance (TA), which often accompanies a Fund program, can serve as one important channel. Here domestic policymakers request the Fund staff to offer their advice on identifying, formulating, and implementing a set of policy priorities. TA has been described as "consumer-oriented" in that it is kept separate from

IMF conditionality and is dependent solely upon requests from member states (Kahler 1992:129). The typical technical assistance client is a state lacking adequate technical capacity and thus turns to the Fund staff as a source of expertise (IEO 2005b).

In the absence of an IMF program, annual consultations with member states, what the Fund calls bilateral surveillance, serve as the main channel through which the staff disseminate their ideas and engage in policy dialogue (James 1996:79). Widely disseminated semi-annual reports providing multilateral and regional surveillance of the world economy as well as staff research and policy papers supplement these bilateral consultations as channels for disseminating ideas. One source has described surveillance as involving "a continual exchange of information as a means of persuasion" (James 1995:17).

These arguments suggest four different processes through which the IMF can influence policy choices in its member states via the diffusion of norms and ideas. As illustrated in Table 1, these processes differ on two key dimensions. First, the IMF's influence can either be direct or indirect. In the former case, the Fund's influence works directly on policymakers or interest groups who have little or no inclination for behavioural change. Direct processes of influence include the bargaining dynamics associated with IMF programs as well as teaching. In the case of indirect influence, the Fund's influence serves to empower sympathetic policymakers or interest groups who independently view behavioural change as desirable. Indirect processes of influence include cheerleading dynamics that serve to empower the position as well as enhance the persuasiveness of sympathetic policymakers or interest groups vis-à-vis their opponents.

The second dimension concerns whether the form of IMF influence is "rationalist" or "constructivist" in nature. The Fund's rationalist influence consists not only of the financial resources associated with IMF programs and any potential "catalytic effect" but also its ability to bestow an informational advantage and gatekeeping role to sympathetic domestic policymakers. On the other hand, the Fund's constructivist influence is found its status as an expert authority, which it employs to persuade other actors of the legitimacy of its arguments.

Combining these two dimensions allows us to broadly distinguish between the processes through which the Fund exerts its influence. The "bargaining" process involves the use of financial resources and the potential "catalytic effects" associated with IMF programs, which are rationalist in nature, to directly influence behaviour.   The "cheerleading via empowerment" is also rationalist in nature – bestowing an informational advantage and gatekeeping role to sympathetic policymakers – but is used to indirectly influence behaviour. "Cheerleading via enhancement" also entails indirect influence.   Yet it is constructivist in nature, involving the use of its expert status to bolster the persuasive power of sympathetic policymakers or interest groups.   Finally, teaching also entails the use of the Fund's expert status to persuade, but it is employed to directly influence behaviour.

Table 1. *Alternative Processes of IMF Influence.*

	Nature of Influence	
Manner of Influence	Rationalist	Constructivist
Direct	Bargaining	Teaching
Indirect	Cheerleading via empowerment	Cheerleading via enhancement

Testing the Hypotheses

Data

The specific countries and time frame for study were determined by data availability. Summary statistics and data sources are provided in Appendices 1 – 2, respectively.

Dependent Variable

The dependent variable is an index of capital account openness, developed by Chinn and Ito, which indicates the intensity of capital controls across countries (Chinn and Ito 2002). Higher values of the index represent greater openness.

Independent Variables

I show elsewhere that the educational background of senior Fund staff members can serve as a useful proxy for the Fund's dissemination of norms and ideas prescribing capital account liberalization (Chwieroth 2007a). Professional training in particular university economics departments, which are known for their beliefs in the desirability of liberalization, serves as a form of socialization that shapes an individual's subsequent policy preferences. The technical knowledge and normative beliefs imparted through professional training subsequently becomes an interpretative lens through which economists diagnose problems and identify solutions.

In the early 1960s, most economists abandoned the claim – which had dominated thinking since Bretton Woods – that the inherent volatility of financial markets necessitated and legitimated the use of permanent capital controls. Replacing this Keynesian consensus was a new set of what might be called neoclassical understandings that came to dominate the profession.[21] In contrast to Keynesians, neoclassical economists shared the view that free capital movements would be beneficial and desirable, at least in the long run. Although some neoclassical economists recognized the dangers of rapid liberalization and the importance of sequencing and that international capital markets could err in the short run, as Jean Tirole (2002:ix) observes: "A wide consensus had emerged among economists, capital account liberalization – allowing capital to move freely in and out of countries without restrictions – was unambiguously good."

The differences that remained among neoclassical economists were one of degree rather than kind. Debates persisted within the profession about the importance of pace and sequencing of liberalization, but not of its long run desirability. This consensus was in sharp contrast to Keynesian understandings that denied the desirability of liberalization even in the

[21] For a summary of these understandings, see Obstfeld (1998).

long run. Remarkably, this consensus developed in the absence of unambiguous evidence confirming the benefits of liberalization and persisted until the Asian financial crisis.

On the basis of qualitative studies of academic departments and publication frequency in the *American Economic Review*, I have identified elsewhere a set of academic departments where and a time frame when these ideas were likely promoted (Chwieroth 2007a).[22] Data limitations restricted the earlier study to focusing solely on the directors of the Fund's area and functional departments involved in capital account issues. Here I improve on this analysis in two ways.

First, I refine the initial analysis using newly available data that extends deeper into the IMF's decision-making tree. These data go below the level of director to include assistant directors, senior advisors, advisors, and division chiefs, thus better capturing personnel developments and their influence on norms and ideas within the Fund. These data were created from telephone directories found in the IMF's archives and provided by the Fund's Communications Department. The educational background data were found in Digital Dissertations, Index to Theses, LexisNexis Executive, and The International Who's Who.[23]

Second, I diverge from and improve on previous work by disaggregating the Fund as a unit and examining the relative influence of its constituent parts. Most work treats the Fund as a unitary actor, assuming, as a number of critics suggest, that it speaks with one voice and advocates a uniform set of policies for all countries on all occasions.

Yet, as suggested, the Fund never spoke with one voice on capital account liberalization. Rather, the issue was subject to a vigorous internal debate that resulted in a fairly diverse set of policy prescriptions. Moreover, while the Fund tends to be a hierarchical

[22] The academic departments are Berkeley, Brown, Carnegie Mellon, Chicago, Harvard, Hebrew University (Israel), Johns Hopkins, New York University, Northwestern, Pennsylvania, Princeton, Stanford, Wisconsin, and Yale. The time frame is 1963 to 1981.

[23] See <http://www.lib.umi.com/dissertations/seach>; <http://www.these.com>; <http://global.lexisnexis.com/>; <http://www.worldwhoswho.com/>.

and centralized organization in some respects, there is also a considerable degree of polyarchy and decentralization. For instance, bilateral surveillance and negotiations and discussions over IMF programs are the primary responsibility of the relevant area departments. Prior to the departure of area department staff for consultations or negotiations, the Policy Development and Review (PDR) Department must approve mission briefs, which describe a state's economic situation and prescribe a set of desirable policy changes.

PDR ensures that the brief is consistent with Fund policies and that it addresses all the topics that consultations and negotiations are supposed to cover.[24] However, after PDR has approved of a brief, final discretion over the relative emphasis given to a particular issue or policy lies with the area department mission chief. It is there not surprisingly that one recent evaluation of the Fund's internal decision-making processes describes the Fund's various departments as a set of individual "fiefdoms."

The IMF staff are housed in various area and functional departments, which have undergone several reorganizations in the Fund's history. The following current departments would have been historically concerned with capital account issues: Research (hereafter RES), Policy Development and Review (PDR), Monetary and Capital Markets (MCM), and various regionally organized area departments.[25] The educational background of staff in these departments was coded and a measure indicating the proportional of neoclassical economists in each department was developed.

[FIGURE 1 HERE]

[24] Other departments, such as Research and MAE, are also invited to comment on briefs. However, evaluations of the Fund's internal processes suggest that these comments are rarely incorporated. See IMF (1999b:32-33, 72-73); IEO (2006:9, 47).

[25] In 2003, MAE was renamed the Monetary and Financial Systems Department (MFD). Although relevant for discussions about capital account policy in the early part of this century, the International Capital Markets (ICM) Department was not created until 2001. In 2007, MFD and ICM were merged to create the Monetary and Capital Markets (MCM) Department.

Figure 1 tracks personnel changes and the evolution of neoliberal ideas within the Fund from 1970 to 1998.[26] Although these data cannot differentiate between gradualist and big-bang supporters, it does offer a clear picture of the general ascendance of neoliberal ideas within the Fund as well as the considerable variation that existed across departments. Across the Fund as whole the ascendance of neoliberal ideas appears to begin gradually in the early to mid-1970s and then accelerate in the late 1980s and early 1990s.

Yet, as expected, Figure 1 suggests significant differences existed among the staff, with neoclassical economists being most prevalent in RES, MAE (and its principal institutional predecessor the Central Banking Department [CB]), and the Western Hermispher Department (WHD). Although RES tended to be the department that housed the most neoclassical economists, there were sharp divisions within the department between gradualists – who mainly worked within the department's Capital Markets Group – and big bang supporters.[27] Indeed, while two former RES Directors, Frenkel and Mussa, were associated with the gradualist camp, other influential staff members, such as Morris Goldstein and Donald Mathieson, were reportedly initially more sympathetic to the big bang approach. Figure 1 also suggests that MAE (and CB) generally was staffed with a large number of Neoliberal economists. But, as I discuss below, MAE was less divided than RES and tended instead to support the big bang approach. Rounding out the discussion of the functional departments, PDR (and its principal institutional predecessor ETR) also generally housed a modest contingent of Neoliberal economists, though their relative number usually was smaller than that found in RES or MAE. Within PDR the gradualists tended to have the upper hand, but there also were proponents of the big-bang approach as well.

[26] Although data are available from 1946 to 1998, prior to the 1970s the measure detects no neoclassical economists in the staff positions for which data are available. I therefore only plot the data from 1970 to better illustrate the changes over time. In the data set of 472 IMF staff members, 120 staff members or 25.4 percent were coded as being a neoclassical economist.

[27] Author Interviews with Mussa; Goldstein; Liliana Rojas-Suarez, Staff [1984 – 1994], RES, IMF, Washington, DC, 26 May 2005; Mohsin Khan, Staff [1972 – present], MECA, IMF Institute, RES, IMF, Washington, DC, 7 June 2005.

Among the area departments, the WHD clearly stands out. Indeed, the evidence from country consultations presented earlier and below, as well as that gleaned from interviews, strongly suggests that WHD was a more enthusiastic proponent of liberalization than other area departments.[28] But within WHD there also were staff who were accommodative of, even sympathetic to, the use of selective restraints on capital inflows. For instance, when, in 1991, Chile first introduced market-based controls on inflows – a measure that fostered significant debate within the Fund and the academic community (see below) – the WHD staff responsible for country consultations did not oppose the measure, and, in fact, later positively noted that the controls may have helped limit short-term inflows.[29]

Strong proponents of liberalization also could be found in other area departments. Figure 1 suggests that the Asia Department and the European Department (EURO) tended to house a fairly large contingent of Neoliberal economists from the late 1970s until their reorganizations in 1991 and 1992, respectively. The Asia Department was reorganized into separate departments covering Southeast Asia and the Pacific (SEAP) and Central Asia (CAS) until 1997 when these separate departments were consolidated into the Asia and Pacific Department. The European II Department (EURO2) was created in 1992 with the task of managing relations with countries of the former Soviet Union, while the European I Department (EUROI) was created to cover countries in Eastern and Western Europe.[30] The data in Figure 1 suggest that CAS and EURO2 were generally staffed with a larger contingent of Neoliberal economists than SEAP and EURO1.

[28] Author Interviews with Claudio Loser, Staff [1972 – 2002], WHD, ETR, IMF, Washington, DC, 26 May and 8 July 2005; Jack Boorman, Staff [1977 – 2001], PDR, ETR, ASIAN, IMF, Washington, DC, 31 May 2005; Matthew Fisher, Staff [1973 – present], ICM, PDR, ETR, CB, IMF, Washington, DC, 19 May 2005; Mussa.

[29] Chile – Staff Report for the 1994 Article IV Consultation, SM/94/172, 6 July 1994, pp. 3, 4, 8 (IMF ARCHIVES); IEO, *The IMF's Approach to Capital Account Liberalization*, p. 28. Western Hemisphere Department staff also did not initially oppose introduction of similar market-based controls on inflows in Colombia in 1994, see IEO, *The IMF's Approach to Capital Account Liberalization*, pp. 68-69.

[30] In 2003, EURO2 was dissolved, with the Baltic countries, Belarus, Moldova, Russia, and Ukraine moving to EUROI, which was renamed the European Department. The other countries of the former Soviet Union were moved to the Middle Eastern Department, which was renamed the Middle East and Central Asia Department.

Nonetheless, archival evidence suggests each of these departments also was characterized by the gradualist-big bang division. In South Korea, the SEAP staff were particularly forceful in encouraging broader and more rapid liberalization despite attempts by RES's Capital Markets Group to raise concerns about the risks inherent in South Korea's liberalization strategy, which had liberalized short-term foreign borrowing while maintaining restrictions on long-term flows, thus encouraging the build up of short-term debt by weak financial institutions. Throughout the 1990s, the SEAP staff paid little attention to the problems caused by such a liberalization sequence and pressed instead for "further substantial liberalization," "a more ambitious timetable than envisaged [by the government]," and "a faster pace."[31]

But others within SEAP and CAS offered an alternative perspective. For instance, staff consultations with India were routinely supportive of the gradual approach to liberalization taken by the government.[32] In Indonesia, which faced a high external debt burden and growing weaknesses in the state-dominated banking sector, the staff endorsed limits introduced by the government in 1991 on foreign borrowing by all public sector entities, including those with no more than indirect links to the state.[33] In contrast to consultations with South Korea, the SEAP staff responsible for Indonesia were more conscious of the vulnerabilities created by large capital inflows and associated foreign debt as well as the fragile banking system. But these staff members also underestimated the risks associated with reliance on short-term capital flows that were vulnerable to a sudden shift in

[31] Korea – Staff Report for the 1990 Article IV Consultation, SM/90/184, 18 September 1990, p. 15 (IMF ARCHIVES) ["further substantial liberalization"]; Korea – Staff Report for the 1992 Article IV Consultation, SM/93/11, 19 January 1993, p. 16 (IMF ARCHIVES) ["a more ambitious timetable"]; Korea – Staff Report for the 1995 Article IV Consultation, SM/95/209, 18 August 1995, p. 2 (IMF ARCHIVES) ["a faster pace"].
[32] IEO, *The IMF's Approach to Capital Account Liberalization*, p. 51.
[33] Indonesia – Staff Report for the 1992 Interim Article IV Consultation, SM/92/81, 13 April 1992, pp. 15, 18 (IMF ARCHIVES); Indonesia – Staff Report for the 1993 Article IV Consultation, SM/94/22, 25 January 1994, pp. 17, 22 (IMF ARCHIVES). The staff also pointed out that care needed to be taken to ensure the measure did not impede private sector borrowing and that the measure was not a substitute for improving bank management.

market sentiment and failed to adequately recognize the extent of Indonesia's banking sector weaknesses.

In the early 1990s, the EUROI and EUROII staff were extremely supportive and welcoming of measures that liberalized restrictions in the transition economies of the former Soviet Bloc. Liberalization was encouraged as a means to supplement domestic savings (Poland in 1991), to decrease domestic interest rates (Slovenia in 1993), and to foster greater price stability (Russia in early 1990s).[34] According to a 1995 internal review, the EURO1 and EURO2 staff also supported the "rapid liberalization of certain capital account transactions" in the early 1990s in several Eastern European countries under the auspices of IMF programs.[35] The EUROI and EUROII staff also occasionally urged broader and more rapid liberalization when reforms outlined in IMF programs were not implemented. However, since liberalization could not legally be made a condition for the use of Fund resources, the staff, even if they wished to do so, had no direct leverage with which to impose liberalization. It also should be noted that some EUROI staff were cautious not to push for liberalization too rapidly. In 1992, for instance, the staff consulting with Albanian officials recommended that controls on outflows be maintained until external imbalances were resolved and the reserve position strengthened.[36]

Generally speaking, the Middle Eastern (MED) and African Departments contained the fewest Neoliberal economists, and this, along with the fragility of many of the economies in these regions, helped to make the staff in these departments some of the least enthusiastic proponents of liberalization within the Fund. But despite this general lack of enthusiasm, the MED and AFR staff did not hesitate to advocate liberalization in some cases, such as Tunisia

[34] IEO, *The IMF's Approach to Capital Account Liberalization*, p. 32-33.
[35] Capital Account Convertibility – Review of Experiences and Implications for Fund Policies – Background Paper, pp. 23. See also pp. 24-25. The internal review covered IMF programs with Albania, Bulgaria, the Czech and Slovak Republics, Estonia, Hungary, Latvia, Lithuania, Poland, and Romania.
[36] Capital Account Convertibility – Review of Experiences and Implications for Fund Policies – Background Paper, pp. 24.

and Botswana in the mid-1990s.[37] Still, in cases where liberalization was encouraged, these staff tended to support gradualism, as exemplified by the stance taken in AFR staff consultations with South Africa in the mid-1990s. Here the AFR staff advised the government to move slowly toward capital account openness due to concerns about political uncertainty associated with the transition from apartheid and in light of recent speculative attacks on the currency.[38]

The RES, MAE, and area department variables offer an approximation of the relative influence of teaching and tutoring as well as cheerleading via enhancement. These efforts at teaching, tutoring, and cheerleading would primarily occur through staff publications, technical assistance, and bilateral surveillance, which are the primary responsibilities of RES, MAE, and the area departments, respectively. To the extent PDR encouraged other staff to discuss and encourage liberalization in particular cases, the PDR variable would capture its indirect influence on policy decisions.

I also combine the area department variables and a dichotomous measure indicating the presence of an IMF program. These interaction terms are intended to capture the relative importance of the area department's bargaining and cheerleading via empowerment. By itself, the IMF program variable indicates the influence of Fund programs in the absence of neoliberal ideas within the Fund, a situation that occurred in many of the area departments from the IMF's creation to the 1970s. Consistent with the earlier theoretical discussion, I expect all of these variables to be positively associated with liberalization.

Control Variables

[37] Capital Account Convertibility – Review of Experiences and Implications for Fund Policies – Background Paper, pp. 21-22; Tunisia – Staff Report for the 1994 Article IV Consultation, SM/94/200, 20 December 1994, pp. iv, 18, 23 (IMF ARCHIVES); Tunisia – Staff Report for the 1997 Article IV Consultation, SM/97/107, 5 May 1997, pp. 7, 9, 14 (IMF ARCHIVES). See also IEO, *The IMF's Approach to Capital Account Liberalization*, pp. 71-74.

[38] IEO, *The IMF's Approach to Capital Account Liberalization*, p. 34; Review of Experience with Capital Account Liberalization and Strengthened Procedures Adopted by the Fund, SM/97/32 Supplement 1, 6 February 1997, pp. 37-38 (IMF ARCHIVES).

A standard set of control variables is also included in the analysis. These control variables include: global international borrowing totals measured in $US trillion, presence of a fixed exchange rate regime, trade as a proportion of GDP, reserves in terms of monthly imports, democracy, central bank independence, partisanship, GDP per capita measured in $US hundred, and the presence of a currency crisis.[39]

Methods

Several diagnostic measures are used to deal with the issues of temporal dependence, unmeasured heterogeneity, and heteroskedasticity, which typically characterize the time-series cross-sectional (TSCS) data this study employs. Unfortunately there is no panacea to deal with these issues and thus I subject the results to sensitivity analysis across estimation methods.

A lagged dependent variable (LDV) is included in the analysis to account for temporal dependence. A LDV eliminates all temporal dependence in the model, suggesting it is superior to alternative error correction specifications (N. Beck and Katz 1996).[40] Country-specific fixed effects are sometimes recommended as means to deal with unmeasured heterogeneity. Yet fixed effects will suppress the explanatory power of time-invariant or "slow moving" variables. In such cases, the loss in terms of inference on important variables may outweigh the gains of minimizing bias. A LDV can also often make fixed effects less relevant, further suggesting that fixed effects should not be included (N. Beck and Katz 2001). Indeed, diagnostic tests using the Bayesian information criterion reveal that LDV models without fixed effects outperform those models with fixed effects. I thus proceed with an initial analysis using OLS regression, a LDV, and panel-corrected standard errors (PCSEs) to account for heteroskedasticity. The results from this model are presented in the first column of Table 2.

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[39] See Eichengreen (2001) for a recent review of the literature.
[40] A Lagrange multiplier test revealed this to be the case. Additionally, there are also substantive reasons to include a LDV in the model, as capital account policy is likely to be path-dependent.

However, such an approach may not be advisable if the correlation between the regressors and the unmeasured heterogeneity is sufficiently large (Kristensen and Wawro 2006). As a robustness check I therefore estimate the same model using fixed effects. The results are found in the second column of Table 2.

Empirical Results and Discussion

Across both model specifications the results provide strong evidence suggesting the IMF's dissemination of norms and ideas was a significant factor in shaping the decision the liberalize in some cases. More specifically, the coefficient for the Western Hemisphere department is positively and significantly associated with liberalization. To the extent that this coefficient captures the IMF's ability to teach or cheerlead via enhancement, it appears that the Fund's efforts to persuade its member states to liberalize were met with some modest success. The results indicate that a one percent increase in proportion of neoclassical economists in the WHD increases capital account openness on the index by only .009 or by about .2 percent.

Still, if one compares the effect of WHD's efforts to encourage greater openness at the height of its enthusiasm for liberalization (i.e., pre-Mexican peso crisis) to the effect of its views when it was more accommodative of controls (i.e., pre-1970s), then its impact appears more influential. Controlling for the other variables in the model, such a comparison suggests that emerging markets in the Western Hemisphere were likely to be 3 percent more open or .367 on the capital account openness index. This effect is modest but consistent with a recent external evaluation of the Fund suggesting that its surveillance should be viewed as only one of many "inputs" to a state's policy decisions that could on occasion be significant (IMF 1999b).

Interestingly, the results indicate that none of the area department's influence is contingent upon the presence of an IMF program. The Fund's efforts to persuade are thus perhaps more significant than its efforts to reinforce or impose. Others have uncovered similar findings. For instance, Tony Killick finds that the Fund's "main contribution to successful adjustment in developing countries has been through [its] influence on the contemporary intellectual climate in which policy issues are debated, and persuasion of governments and their advisers through the regular contacts that occur" (Killick 1996:226).[41]

The Fund's recent emphasis on "policy ownership" turn to participatory dynamics to explain compliance also underscores the vital importance of persuasion. Here effective dissemination of norms or ideas as well as compliance depends on persuasion rather than imposition where policymakers participate and deliberate in the process through which a norm or idea is diffused. The more policymakers "own" or participate in the process, the more they are likely to perceive it as fair and just and thus the greater the likelihood of effective dissemination an compliance.

Why are the remaining IMF staff variables insignificant? Part of the explanation may lie in the lack of enthusiasm with which individuals in certain departments urged states to liberalize. For instance, in September 1994, Mussa offered advice to the Chilean government that was supportive of their capital controls.[42] Mussa also sent Calvo on missions to several states to emphasize the importance of strengthening prudential regulations before liberalizing. Similarly, as indicated earlier, in a number of cases IMF staff missions urged greater caution in liberalizing and were accommodative, even supportive, of selective restraints on capital mobility.

Recent evaluations also cast doubt on the effectiveness of the efforts to disseminate norms and ideas via staff semi-annual reports and policy papers, which are traditionally the avenues through which RES expresses its views. Although policymakers routinely hold these publications in high regard, a recent IMF Independent Evaluation Office review suggests

[41] See also James (1995:775-776).
[42] Author's Interview Mussa.

surprisingly low external readership (IEO 2006:9, 49, 58).[43] Moreover, those that do read these publications tend to be junior-level policymakers who prepare short-summaries for their superiors. The IEO review concludes that less than 25 percent of ministerial-level policymakers actually read the Fund's major publications (IEO 2006:53-54).

The insignificant results may also be due to the failure of Fund prescriptions to resonate with domestic norms.[44] For instance, one important reason for the Fund's failure to convince Malaysia to remove its controls during the Asian crisis was that such a policy would have undermined Malaysia's thirty-year-old commitment to balance the income and wealth of the country's diverse ethnic groups (Abdelal and Alfaro 2003). Domestic political obstacles, such as veto players or interest groups, may also block or impede the implementation of Fund prescriptions. A recent evaluation of technical assistance operations finds the implementation is often undermined by such factors (IEO 2005b).[45]

Finally, it is possible that the insignificant results stem from the tendency of some staff members, particularly in area departments, to be insufficiently frank, direct, and critical in their assessment of a country's policies or economic situation. The Fund's internal incentive structure has recently been criticized for fostering a culture of clientism, as Fund staff members tend to advance in the organization by not rigorously challenging or criticizing country member state policies (IMF 1999b:36). Staff members who are regarded as highly critical can expect they will not be granted access to senior policymakers or information on their next visit. This would then prevent them from doing their job properly.[46]

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[43] See also IMF (1999b:31, 43); IEO (2006:26).
[44] On the importance of domestic resonance for norm diffusion, see Checkel (1999).
[45] The insignificant coefficient for the MAE coefficient could also be due to measurement error. The MAE's contact with national policymakers was generally limited to TA operations, which are only conducted periodically. A more definitive test of the MAE's influence would thus require data indicating the periods during which such operations took place. Unfortunately, these data are not available.
[46] Area department staff also must endorse views expressed in the *World Economic Outlook*, the IMF's flagship publication, and other surveillance notes, both of which are produced by RES. Some area department staff have shown a tendency to water down statements that might be regard as too critical (IEO 2006:37fn22). This could also help account for the insignificant coefficient for RES.

Turning briefly to the control variables, I find that global international borrowing totals and the exchange rate regimes are also associated with capital account policy decisions. The positive effect of the former likely reflects the role that rising capital mobility had on policy choices, while the negative effect of the latter suggests the wariness of policymakers to liberalize in the context of fixed exchange rate regimes. These results confirm that IMF surveillance should be seen as just one of several inputs into a state's policy decisions that could on occasion be significant, depending on the stage of the domestic policy debate.

Several examples help illustrate the significance as well as the limitations of the Fund's influence. Consider first the case of Mexico. In 1981, rising interest rates and failing petroleum prices fuelled speculation about the impending devaluation of the Mexican peso and widespread capital flight. Different factions within the Mexican government offered distinct prescriptions for managing Mexico's looming debt crisis. One faction consisted of "radical developmentalists" educated predominantly at the Universidad Nacional Autónoma (UNAM) and Cambridge University, bastions of structuralist, Keynesian, and post-Keynesian ideas. Outgoing President Jose Lopez Portillo own views leaned toward this faction. In March 1982 he had appointed a group of radical developmentalists to prepare a study of options for confronting the impending crisis. The radical developmentalists concluded that controls and bank nationalization were required to prevent capital flight and to channel financial sector resources toward development (Maxfield 1990:143-144).

Yet the Mexican government was in the process of changing. In September 1981 Lopez Portillo had selected Miguel de la Madrid as his successor. De La Madrid held a degree in public administration from Harvard and had served as head of the Budget Ministry. De La Madrid's own views were in line with those promoted by another faction in the Mexican government. This faction argued against controls and stressed the need for adjustment, stabilization, and liberalization.[47] In deference to the incoming president, de la Madrid was permitted to appoint the Finance Minister and head of the Central Bank before taking office. De La Madrid selected two Yale-educated neoclassical economists: Jesus Silva Herzog and Miguel Mancera.

Herzog and Mancera, who were charged with negotiating an IMF program, campaigned strongly within the government to prevent imposition of the capital controls when they were being considered in early 1982.[48] Yet Lopez Portillo, after learning of extensive capital flight in August, threw his weight behind the radical developmentalist strategy and appointed one of its authors, Carlos Tello, as head of the central bank in charge of implementing it (Maxfield 1990:145-146). In August the Mexican government announced a dual exchange system composed of a free market rate and a preferential, government managed rate for specified transactions. The controls and bank nationalization were implemented in September.

In spite of the power that Herzog and Mancera gained serving as Mexico's diplomats to the international financial community, this leverage proved ineffective in prevailing against the radical developmentalists.[49] Although the controls were rapidly removed, the Fund's expectation that the controls would be eliminated as part of the program negotiations was not the decisive factor. Rather, the key factor leading to their removal was the lame-duck status of the Lopez Portillo government and the fact that the incoming de la Madrid

[47] Babb (2001:176) speculates that Lopez Portillo selection of de la Madrid as his successor was driven by recognition that Mexico's most pressing issue at the time was the need to impress the international financial community rather than peasants, workers, and students, which provided the government's traditional base of support.

[48] In April 1982 Mancera published a treatise against capital controls, "The Inconveniences of Exchange Controls." He argued that geographic proximity to the United States, lack of administrative capacity, and the complex border economy among the reasons for his opposition (Maxfield 1990:147n8; Babb 2001:178).

[49] One caveat is in order. Lopez Portillo and the radical developmentalists had developed the bank nationalization plan in secret, announcing it to his cabinet only twelve hours before addressing the nation. He asked for the resignations of anyone objecting. Mancera subsequently resigned. Silva Herzog also tendered his resignation, but Lopez Portillo refused to accept it because Mexico's future depended upon the course of negotiations with the international financial community. Silvia Herzog used this leverage to weaken implementation of the bank nationalization plan (Maxfield 1990:149).

government opposed the policy. The new government, which tended to be sympathetic to the Fund's views, was overwhelmingly staffed with neoclassical economists (Camp 1985:100, 103; Centeno 1994:139). It promptly liberalized the controls and signed an agreement with the Fund upon assuming office in December 1982.

The IMF program may have bolstered the position of policymakers sympathetic to the Fund's views against competing voices that remained inside the cabinet, but the program alone was not decisive in shaping Mexico's policy trajectory. The neoclassical economists managed only to terminate the generalized system of controls, leaving in place the dual exchange rate system where capital flows were still controlled. Considerable resistance inside the cabinet, particularly from radical developmentalist supporters housed in the Ministry of Commerce and Industrial Development, impeded reforms. The neoclassical economists in the Finance Ministry and Central Bank were continually forced to confront alternative policies proposed by these proponents.

Here the Fund's cheerleading helped shaped the outcome of debates within the Mexican government. In several annual consultations with the Mexican government in the mid-1980s the Fund staff pressed for the unification of the exchange rate and removal of remaining controls.[50] Though the overwhelming presence of debt restructuring made it difficult to talk about liberalization, the Fund staff nonetheless pointed out that the controls were ineffective and undermined Mexico's attractiveness to investors.[51]

A relatively close working relationship developed between the WHD staff and the Mexican Finance Ministry and Central Bank policymakers. As was the case in numerous

[50] Mexico – Staff Report for the 1984 Article IV Consultation, Prepared by the Western Hemisphere Department, 2 July 1984, p. 5, 32, SM/84/155 (IMF ARCHIVES); Mexico – Staff Report for the 1985 Article IV Consultation and Use of Fund Resources Under the Extended Arrangement – Program for the Third Year, Prepared by the Western Hemisphere Department, 10 May 1985, p. 28, EBS/85/123 (IMF ARCHIVES); Mexico – Staff Report for the 1986 Article IV Consultation and Request for Stand-By Arrangement, Prepared by the Western Hemisphere Department, 15 August 1986, p. 24-25, EBS/86/161 Supplement 1 (IMF ARCHIVES).
[51] Author's Interview with Loser and Rojas-Suarez.

Latin American countries in the 1980s and 1990s, many of these Mexican policymakers were individuals who had been trained in the same graduate schools as the IMF staff with who they were engaged (Golob 1997; Teichman 2001:142). Their similar professional training provided them with a shared understanding of the problems the Mexican economy faced and the appropriate measures to remedy them. Policymakers in the Finance Ministry and the Central Bank did not need to be convinced of the problems with controls or of the desirability of liberalization.[52] Here the Fund's cheerleading lent important intellectual support to sympathetic policymakers, enhancing the persuasiveness of their arguments against their opponents. The Fund staff conducted studies that supported the arguments made by sympathetic policymakers, demonstrating significant capital flight had occurred in Mexico despite the presence of controls.[53]

Still, some policymakers remained unconvinced. Incentives associated with IMF programs, which Mexico was under from January 1983 to December 1985 and November 1986 to April 1987, had the potential to help bolster sympathetic policymakers in their quest to liberalize. But the actual impact of these programs should not be overstated. Whenever the WHD staff took a hard line on controls, members of the Mexican government opposed to liberalization would point out that the staff had no legal jurisdiction over the capital account.[54] Thus, some controls remained in place.

Although the 1988 presidential election brought Harvard-educated economist Carlos Salinas and an overwhelming number of neoclassical economists to power, some policymakers were still opposed to their proposals (Centeno 1994:140). But, importantly, the Brady Plan, which had been announced in March 1989, now permitted the Fund to support

[52] Author's Interview with Loser and Rojas-Suarez. See also Woods 2006:chpt 4.
[53] Author's Interview with Loser and Khan. See also Capital Account Convertibility – Review of Experience and Implications for Fund Policies – Background Paper, Prepared by the Monetary and Exchange Affairs and Policy Development and Review Departments, 7 June 1995, p. 16, SM/95/164 Supplement 1 (IMF ARCHIVES).

debt rescheduling. Discussions began in earnest between Mexico policymakers and the IMF on rescheduling Mexico's debt. The secrecy of these discussions, which were largely confined to the Mexican Finance Ministry and Central Bank, helped bolster the position of the neoclassical economists against their opponents. In internal discussions on liberalizing capital flows, the Finance Ministry and Central Bank invoked the Fund's views to bolster their own, claiming that failure to heed IMF recommendations would cost support for debt restructuring. Yet, the secrecy of the discussions meant that most Mexican policymakers were unaware that the Fund was willing to support debt restructuring in the absence of a commitment to liberalize controls, as it would later do in Brazil.[55]

The Fund's support for liberalization helped tilt the government's internal debate in favor of the liberalizers. In 1989, the government removed remaining restrictions in the exchange system on capital flows. Major restrictions were also eliminated on foreign direct investment and investment in equities and Mexican firms were permitted to issue stocks in foreign markets. Measures were later taken in 1990 to liberalize investment in government bonds and in 1993 to further open up equity investment.

These initiatives came from Mexican policymakers and in that sense there was little teaching that occurred. The Fund's influence alone was therefore likely not the determining factor in shaping Mexico's policy trajectory. Other factors, such as the existence of an essentially single-party political system and the formation of a coherent team of neoclassical economists, were also critical (Shadlen 1999; Chwieroth 2007b). Yet the Fund's cheerleading was clearly significant in enhancing the persuasiveness and empowering the bargaining position of sympathetic policymakers. In the absence of IMF cheerleading, sympathetic policymakers may be willing but not able to press ahead with desired reforms.

[55] Author's Interview with Loser. See also Edwards (2000:202); Woods (2006:97).

The Fund's influence in Latin America was not without limitations, however. Consider the case of Chile. Buttressed by Brady Plan deals and stable macroeconomic policies, a number of emerging markets, including Chile, were confronted with a surge in capital inflows in the early 1990s. In 1991, the Chilean government, which consisted of a number of neoclassical economists in key economic policy positions, introduced a 20 percent unremunerated reserve requirement (URR) on all foreign loans, except trade credits.[56] The controls were implemented to help manage real exchange rate and inflationary pressures as well as to reduce the degree of vulnerability to the domestic financial sector (Zahler 1998; Gowan and De Gregorio 1998). The URR was a noninterest-bearing deposit in foreign currency paid in to the central bank for a specified period of time in an amount proportional to the value of the capital inflow. Over time the coverage of the URR was extended to a broader range of capital flows and the reserve requirement was raised. In the aftermath of the Asian financial crisis, with capital flows to emerging markets abating, the URR was gradually eliminated.

As indicated earlier, the WHD staff did not initially oppose the introduction of the URR, viewing it along with a recent revaluation of the Chilean currency as useful for counteracting overheating in the economy that was fuelled by inflows. By November 1994, however, the staff no longer considered the Chilean exchange rate regime to be flexible enough and urged greater flexibility. The staff's views on the URR also turned negative, advising against any move to tighten it.[57] In their 1995 and 1996 annual consultations with Chilean policymakers, the staff urged elimination of the URR, stating that the controls had

[56] For an overview of the Chilean controls, see Budnevich and LeFort (1997); Edwards (2000).
[57] The July 1994 Article IV consultation offered at best modest support for the URR, indicating that the "policy would be kept under review." Chile – Staff Report for the 1994 Article IV Consultation, Prepared by the Western Hemisphere Department, 6 July 1994, p. 8 SM/94/172 (IMF ARCHIVES).

increased the cost of capital, introduced inefficiencies, and would be increasingly evaded over time.[58]

The Mexican peso crisis and empirical evidence suggesting the positive effects of Chilean controls in lengthening the maturity of inflows served to moderate the Fund staff's position.[59] In their consultations with Chilean policymakers, the Fund staff now conceded the positive effects of the controls, while at the same time retaining their basic position that the controls were distortionary, that their effectiveness diminished over time, and that they failed to substitute for fundamental policy adjustments. The staff thus cautioned against excessive reliance on the URR.[60] But their advice had little impact on Chilean policy.

Why did the Fund staff fail to influence the trajectory of capital account policy in Chile? Part of the reason may lie in the absence of any Fund programs through most of the 1990s. Yet a deeper cause likely lies in the fact that the presence of policymakers with similar professional training can often represent a double-edged sword. On the one hand, in some cases, such as Mexico, similar professional training can result in shared understandings, diagnoses, and policy prescriptions, thus facilitating a strong relationship between the Fund and its domestic interlocutors.

Still, in other cases, such as Chile, the improvement in technical and analytical sophistication that comes with the appointment of neoclassical economists can have a negative impact on the Fund's influence. A "silent revolution" in Latin America brought a remarkable change in the intellectual calibre of the Fund's interlocutors (Boughton 2001). As a result, the Fund's discussions with policymakers became more complex and even-handed in

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[58] Chile – Staff Report for the 1995 Article IV Consultation, Prepared by the Western Hemisphere Department, 10 August 1995, p. 4, 8-9, 12 SM/95/196 (IMF ARCHIVES); Chile – Staff Report for the 1996 Article IV Consultation, Prepared by the Western Hemisphere Department, 16 August 1996, p. 9, 16 SM/96/219 (IMF ARCHIVES). See also IEO (2005a:28).

[59] The effectiveness of the Chilean controls has been a subject of considerable debate. For an overview, see Nadal-De Simone and Sorsa (1999) and Gallego et al. (2002).

[60] Chile – Staff Report for the 1997 Article IV Consultation, Prepared by the Western Hemisphere Department, 20 January 1998, p. 12-13 SM/98/19 (IMF ARCHIVES)

the 1980s and 1990s. The Fund therefore no longer possessed the "intellectual strength" to assert and press its views on some policymakers.[61] The vast improvement in the quality of the Fund's interlocutors meant that some policymakers were now less likely to be deferential to the Fund's technical expertise.

The Fund's relationship with Chile provides a clear illustration. Roberto Zahler was the principal architect of the controls. Zahler, an economist educated at the University of Chicago, served as head of the central bank from 1991 to 1996. A number of other neoclassical economists educated in elite American universities, such as Alejandro Foxley (Finance Minister 1990 – 1994) and Eduardo Aninat (Finance Minister 1994 – 1999), were also present in the Chilean policymaking team (Silva 1991; Kinney Giraldo 1997). In the 1980s, Zahler had been a staff member in the Fund's Research Department where, along with Moshin Khan, he began investigating the effects of liberalizing capital controls. Contrary to conventional wisdom at the time, Khan and Zahler discovered that liberalizing controls on capital outflows in the context of a balance of payments crisis ultimately led to resumption of capital inflows because investors were confident that they could exit in times of economic distress (Khan and Zahler 1983, 1987). This finding led Khan and Zahler to then explore strategies to deal with the surge in capital inflows that policymakers would eventually face.

Market-based controls of the type that Zahler would later implement were one option that they tended to favour.[62] Zahler's sophisticated technical analysis was extremely compelling both inside and outside the Fund.[63] It is therefore not surprising that Zahler and others in the Chilean government were not easily persuaded by the Fund's calls for liberalization. The vast improvements in the quality of the Fund's interlocutors in Chile and in other states thus sometimes served to lessen the capacity of the Fund to effectively disseminate its norms and ideas.

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[61] Author's Interview with Loser. See also Woods (2006:87).
[62] Author's Interview with Khan.
[63] Zahler and Khan's pioneering analysis is routinely cited in Fund papers and the academic literature.

Conclusion

States make policy decisions as a result of multiple influences, of which IMF advice may be only one and is likely not the most important one. Governments rarely acknowledge that policy changes are made for international rather than domestic reasons, still less that they are made as a result from advice from an IO.[64] In spite of these obstacles, this paper provides strong evidence suggesting that the Fund's advice was significant in influencing the move toward capital account liberalization. Though the effect is modest and limited to one region, it does suggest that IMF policy advice should be viewed as one of many inputs to a state's policy decisions that could on occasion be significant. This finding contrasts with previous work on the Fund and other IOs, which tends to treat their policy advice as significant only in the context of and to the extent it informs conditionality.

This finding implies a need to broaden future analyses of IO influence to encompass cheerleading. Recent work on IOs has helped us better understand how they serve as social environments (Johnston 2001; Checkel 2005). Yet this work tends to distinguish solely between an external incentives model of diffusion (i.e. conditionality) and a social learning model of diffusion (i.e. teaching), neglecting the role of cheerleading, which constitutes an analytically distinct mechanism. Cases in which no domestic actor is seeking to initiate policy change are likely to prove rare. While external incentive models can accommodate how cheerleading empowers these actors, a social learning model based on teaching alone cannot accommodate processes of enhancement. Sitting at the intersection of international relations and comparative politics, cheerleading helps enrich our understanding how policy advice from IOs interacts with domestic political conditions to facilitate policy reforms.

Cheerleading also helps to refine our understanding of how IOs serve to promote policy diffusion. The recent wave of diffusion research has focused largely how IOs

[64] However, policymakers may often use the IOs as a "scapegoat" for unpopular policies.

encourage diffusion via conditionality and teaching. The results provided here suggest that conclusion that cheerleading also serves as an important conduit through which norms and ideas diffuse and are implemented into policy. Future research should focus on deepening our understanding of this process.

Finally, the results suggest that existing studies of capital account liberalization are incomplete. These studies generally fail to neglect how the ascendance and diffusion of neoliberal norms and ideas shaped the trend toward liberalization.[65] These studies also tend to limit their analysis to the role of IMF programs. But these studies cannot fully account for the trend toward liberalization in emerging markets and generally mischaracterize the role of IMF programs. By addressing and demonstrating the role of norms and ideas within the Fund and how they actually mattered, this paper offers a fuller understanding of financial globalization in emerging markets.

[65] Notable exceptions include Chwieroth (2007a, 2007b).

Figure 1. *Neoclassical Economists at the IMF, 1970 - 1998*

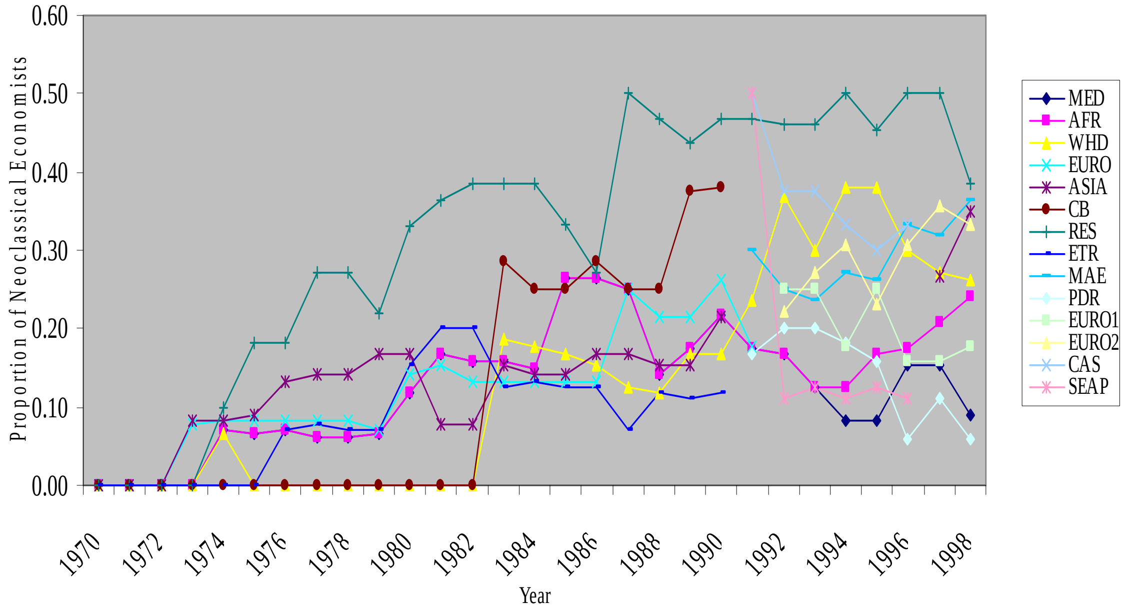

Table 2. *Covariates of Capital Account Policy, 1977 – 1998*

	(1)	(2)
African Staff	.002	.005
	(.004)	(.007)
Asian Staff	.005	-.004
	(.004)	(.005)
European Staff	.011	.023
	(.006)	(.014)
MAE Staff	-.0008	-.005
	(.002)	(.003)
Middle East Staff	-.001	-.005
	(.004)	(.005)
PDR Staff	.009	.006
	(.006)	(.006)
Research Staff	-.002	-.003
	(.004)	(.004)
Western Hemisphere Staff	**.009***	**.009***
	(.003)	**(.004)**
African Staff*IMF Program	-.002	-.0006
	(.004)	(.005)
Asian Staff*IMF Program	-.005	-.0002
	(.004)	(.004)
European Staff*IMF Program	-.017	-.012
	(.009)	(.010)
Middle East Staff*IMF Program	.002	.007
	(.005)	(.006)
Western Hemisphere Staff*IMF Program	.00008	.002
	(.004)	(.004)
IMF Program	.120	.053
	(.072)	(.073)
International Borrowing	**.0003***	**.0004***
	(.0001)	**(.0001)**
Fixed Exchange Rate	**-.063***	**-.086***
	(.032)	**(.043)**
Trade / GDP	**.001***	.000006
	(.0005)	(.001)
Reserves / Imports	.011	.012
	(.007)	(.008)
Democracy	-.002	.001
	(.003)	(.004)
Central Bank Independence	**-.156***	-.032
	(.078)	(.127)
Leftist Government	-.062	-.133
	(.044)	(.071)
Rightist Government	-.073	-.049
	(.046)	(.051)
GDP Per Capita	.001	-.003
	(.0007)	(.002)
Currency Crisis	.024	-.002
	(.039)	(.037)
LDV	**.888***	**.758***
	(.023)	**(.043)**
Constant	**-.288***	-.273
	(.144)	(.187)
N	1031	1031
R-Squared	.8688	.8828

Appendix 1. *Summary Statistics*

Variable	*N*	*Mean*	*Std. Dev.*	*Min*	*Max*
Capital Account Openness	1371	-.3000	1.433	-1.7926	2.6566
African Staff	1672	5.22	8.35	0	26.51
Asian Staff	1672	3.15	7.74	0	50
European Staff	1672	.224	2.04	0	26.31
MAE Staff	1672	21.17	13.56	0	37.5
Middle East Staff	1672	2.56	6.15	0	26.51
PDR Staff	1672	12.88	4.74	5.88	20
Research Staff	1672	40.08	8.47	22	50
Western Hemisphere Staff	1672	5.39	10.75	0	38.09
IMF Program	1664	.407	.492	0	1
International Borrowing	1672	387.42	310.01	61.86	1224.74
Fixed Exchange Rate	1671	.637	.4809	0	1
Trade / GDP	1497	66.85	41.94	6.32	636.71
Reserves / Imports	1487	3.38	2.89	-.092	24.66
Democracy	1494	-.780	7.20	-10	10
Central Bank Independence	1487	.269	.219	0	1.3
Leftist Government	1668	.239	.427	0	1
Rightist Government	1668	.218	.413	0	1
GDP Per Capita	1554	26.09	35.60	.493	259.59
Currency Crisis	1672	.191	.4868	0	1

Appendix 2. *Data Sources (Excluding those sources discussed in test)*

Variable	**Source**
IMF Program	Vreeland (2003)
International Borrowing	OECD *International Capital Market Statistics*
Fixed Exchange Rate	IMF *Annual Report on Exchange Restrictions and Exchange Arrangements*
Trade / GDP, Reserves / Imports, GDP Per Capita	World Bank *World Development Indicators*
Democracy	POLITY IV
Central Bank Independence	de Haan and Kooi (2000)
Leftist & Rightist Government	World Bank Database of Political Institutions
Currency Crisis	Leblang (2004)

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