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Who Reveals?
Transparency and the IMF's
Article IV Consultations

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Abstract:

A dramatic change has taken place in the manner in which the IMF conducts its annual surveillance of member state economies. These annual consultations (known as Article IV consultations) were originally viewed as private matters that were never intended to be made public. Starting in 1997, the IMF released summary information about a country's consultation on a voluntary basis. Recently, countries could choose to release the consultation team's report itself, which is prepared for discussion by the Fund's Executive Board. Despite these new efforts at transparency, only about 70-80% of these Article IV reports are made public in a given year. The proposed paper aims to explore the sources of this variation.

We test four alternative explanations for variations in cross-country transparency. We find strong support for a link between regime type and transparency, and some support for economic variables shaping transparency decisions. We find strong evidence for regional contexts in shaping country decisions regarding Article IV transparency, and limited evidence linking IMF lending to IMF transparency.

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Paper Presented at Midwest Political Science Association, Chicago IL, March 31, 2011 and the Workshop on Multimode Governance and Globalization, European University Institute Global Governance Programme, December 16-17, 2011.

Manuscript Version: January 21, 2012.

The International Monetary Fund (hereafter IMF) and its lending programs have been intensely studied by scholars in recent years.¹ Recent scholarship in political science has made four key contributions to this literature – a more focused appraisal of the methodology of selection effects (Edwards 2005; Vreeland 2003; Stone 2002), a deeper understanding of the role of international political factors in shaping program selection and compliance (Copelovitch 2008; Oatley and Yackee 2004; Stone 2004; Thacker 1999), an appraisal of how political factors within states shape their ability to implement austerity measures (Nooruddin and Simmons 2006; Pop-Eleches 2008; Stone 2004), and finally, an improved understanding of the effects of IMF programs on international financial markets (Edwards 2005, 2006; Gould 2003; Jensen 2004; Mosley 2003).

While the above scholarship has focused on the politics and the effects of IMF lending, other roles of the IMF have received less scholarly attention. The Fund was originally created to exercise surveillance over country economies in a world of fixed exchange rates. The Fund's original mandate was to ensure that countries adopted economic policies that were consistent with keeping currencies stable. With the end of the Bretton Woods system, the IMF has continued to perform this surveillance function. This surveillance takes the form of annual meetings with countries (known as Article IV consultations) to ensure that countries are implementing economic and financial policies “toward the objective of fostering orderly economic growth with reasonable price stability.”² While originally envisioned to focus on the exchange rate, the breadth of issues covered in these consultations touch on fiscal and monetary policy, as well as trade policy and structural reforms (Boughton 2001; Pauly 1997). Surveillance

¹ Research supported by NSF SES-0960422. Thanks to Chandra DeNap and Emily Pease for their help with data.

² IMF Articles of Agreement, Article IV, Section 1, Point i.

activities take up approximately 42% of staff time (IMF 1999:23) and about 60% of the time of the Fund's Executive Board, covering about 120-130 consultations per year (Van Houtven 2002:15).

With the onset of the global economic crisis, IMF surveillance of country economies has taken on greater importance. The G-20 London summit endorsed strengthening "candid, even-handed, and independent" IMF surveillance of member state economies as a means to strengthen the international monetary system. The IMF also has an important role, not only in managing country risks through surveillance, but also in providing know-how. Following its June summit, the G-8 finance ministers tasked the IMF to help member governments by providing the analytical work necessary to make decisions on scaling back the stimulus packages created by countries in response to the crisis.

Recent moves to make Article IV reports transparent make it possible for us to better answer these questions. Following the arrival of the IMF Article IV team on the ground (which takes place approximately every calendar year in both developing countries and developed countries), a report is drafted, which is the document that goes before the IMF's Executive Board. Since February 2004, the presumption is that this report is made public on the IMF website unless the country blocks publication. As we detail below, the incidence of release of information following the Article IV consultation has increased substantially. The fact that countries seek to suppress publication of these reports in about 20% of the cases, however, tells us something of note. If the skeptics are correct that IMF surveillance is utterly inconsequential, why would countries block publication of the report? Conscious attempts to delimit transparency can only mean that countries seek to limit the impact of the findings of the consultation, and can be interpreted as a sign that these reports actually are influential.

Why is this question important?

IMF surveillance is understudied by scholars relative to lending. Calls for increasing the amount of surveillance demonstrate that this issue is not going away in the near future.

Developing a deeper understanding of when and how surveillance matters is useful for three reasons.

First, it helps us to better understand the effectiveness of the IMF more generally. A better understanding of the sources of its dysfunctions helps contribute to a larger literature on IMF reform. For example, a policy implication of Stone's (2002, 2004) work is that the presence of geopolitical biases in lending means that the Fund needs to be more independent from G-7 countries. This, in turn, suggests that surveillance is similarly distorted by the prism of great power politics, which has implications for when and how surveillance matters. Fratzscher and Reynaud (2010) find that geopolitical biases affect both the content and the impact of IMF surveillance.

Outside of adding to our knowledge of the IMF and its influence, this project helps advance a larger theoretical concern. Scholars study the IMF because it is one of the most influential international organizations – if countries don't implement the conditions outlined in their austerity programs, access to additional installments of the IMF loan can be suspended. In contrast, there is no direct enforcement by the IMF for failing to heed the advice offered in an Article IV consultation.

While IMF surveillance has taken on greater importance, our knowledge about when IMF surveillance matters is scant. Functional IR theory (also known as neoliberal or neoliberal institutionalism) suggests that surveillance, even when not backed with lending, should be

consequential. Information provision is part of the rationale for the IMF's creation in the first place. Investors lack reliable information about the future course of a country's economy, especially in developing countries (Keohane 1984; Mosley 2003; Rodrik 1995). Information provision takes on the properties of a public good that can be underprovided, and the countries that contribute this information have incentives to misrepresent it. Empowering the Fund to gather economic information about countries, then, ensures consistency and is a barrier against bias (Abbott and Snidal 1998). IMF surveillance, then, should be informative to external observers.

For many international organizations, enforcement is not an option. Soft law is an increasingly important regulatory tool in the world economy, yet we lack a theoretical understanding of when and how it matters.³ For realists, rules such as Article IV are epiphenomenal and merely encapsulate extant preferences rather than alter behavior. For constructivist scholars (Finnemore 1993, Barnett and Finnemore 1996) international organizations have influence even if they have no enforcement power because they have expertise. This allows IOs to socialize states by diffusing norms, but the microfoundations of the socializing or persuading power of international organizations have yet to be fully explicated (Checkel 2001). For functional IO scholars, information provision is part of what international organizations do, but this does not tell us when and how such information is viewed as consequential. Investors lack reliable information about the future course of a country's economy, especially in developing countries (Keohane 1984; Mosley 2003; Rodrik 1995). Information provision takes on the properties of a public good that can be underprovided, and the

³ Soft law is a term often reserved for international rules that lack enforcement. As Abbott, Keohane, Moravcsik, Slaughter, and Snidal (2000) note, Article IV creates weak legal obligations on countries, and the force of these obligations is not precise.

countries that contribute this information have incentives to misrepresent it. Empowering the Fund to gather economic information about countries, then, ensures consistency and is a barrier against bias (Abbott and Snidal 1998).

One of the key insights of Simmons' (2000) work on Article VIII of the IMF (which is a rule forbidding countries imposing restrictions on foreign exchange) was that enforcement does not need to be centralized to be consequential. The idea that international organizations can work as coordination devices suggests that their influence is often indirect. For Simmons, the IMF stipulates whether or not states have met Article VIII. Recent reanalyses of her work suggest that countries that have not met Article VIII experience higher risk premia on their sovereign debts as a result (Nelson 2008). Similarly, in the field of human rights, countries investigated by the UN Human Rights Commission are less likely to receive loans from the World Bank (Lebovic and Voeten 2009). These papers thus suggest that neglecting the signaling effects of international organizations leads one to overlook their considerable effects. International organizations that lack enforcement power can be consequential because their signals are used by third parties.

A third issue that this project touches on is the politics of transparency. The strengthening of norms of Article IV transparency is part of a broader policy shift across countries toward greater government openness (Florini 2007). Understanding when countries *make their reports publicly available* is part of this broader shift. We answer this question in the pages below using a dataset on every country that underwent an Article IV consultation between 1997 and 2008. We test four alternative explanations for variations in cross-country transparency. We find strong support for a link between regime type and transparency, and some support for economic variables shaping transparency decisions. We find strong evidence for regional contexts in shaping country

decisions regarding Article IV transparency, and limited evidence linking IMF lending to IMF transparency.

How has IMF bilateral surveillance changed over time?

Since the end of the Bretton Woods system, IMF surveillance has moved from being a purely private exchange (in which all documents are private between the country and the Fund team) to a largely public exchange in which documents are increasingly released to the public via the IMF website. The initial step in this transformation took place in April 1997, when the IMF's Executive Board allowed the creation of Public Information Notices (PINs). These notices are essentially press releases that contain both factual information as well as the Fund's assessment of the state's economic policies and prospects. PINs can be published by the Fund 5-10 days after the Executive Board's review of the country's consultation, following approval by the member country.

The original concerns about increasing transparency were based on the idea that revealing too much information to markets, specifically about exchange rate policy, would destabilize them (James 1996:274). After all, a strong public signal from the Fund that a country's exchange rate is unsustainable is likely to produce a run on the currency and force a devaluation. Rather than discuss exchange rates directly, staff reports discussed whether monetary and fiscal policy was largely consistent with the exchange rate policy (Boughton 2001:90). The Fund moved to allow the release of PINs following country approval, since some countries were already releasing information from the Article IV team's wrap-up meeting with country authorities (Boughton 2001:101). Consistent with the Fund's concern that too much transparency would destabilize markets rather than reassure them, the IMF sought to develop guidelines for carefully

tempering the language used in the PIN. Since the PIN effectively expresses the opinions of the Executive Board, an organization that operates under a norm of consensus, the Fund uses qualifiers to summarize the extent of agreement or disagreement on any one issue. For example, the use of the phrase “a few” may refer to the opinions of two to four Executive Directors, “some” refers to the opinions of five to six Executive Directors, and so on.⁴ The result is a particularly unique form of Fundspeak.

The second step in the move toward greater transparency came in March 1999, when the Executive Board agreed to an 18 month pilot program for voluntary release of the Article IV staff reports. These staff reports are the documents generated by the Article IV team for the Executive Board’s review. Countries are allowed to delete information felt to be market sensitive prior to publication, and in countries in which the staff report was issued, a PIN would also be issued. The pilot program ran from April 1999 to December 2000. During that time, 61 countries released reports from a total of 77 consultations with their respective Article IV team.

The third step came in January 2001 following the expiration of the pilot program. At this time, the Executive Board made the release of Article IV staff reports voluntary. In addition, the Executive Board created an explicit policy regarding deletions from the reports, which limited them solely to information regarding exchange rates and interest rates that is market sensitive. Countries can refuse to have the staff report published, and they can also refuse to allow a PIN to be released.

Finally, in February 2004, the Executive Board made the release of Article IV staff reports “voluntary but presumed.” In other words, countries have to stipulate if they **do not** approve of the release of the report, rather than if they wish the report to be released. In practice, this means

⁴ IMF 2010.

that states that do not offer an opinion will have their report released by the IMF – as occurred in the case of China’s Article IV consultation in 2005. As above, states can continue to even prevent PINs from being released regarding the consultation.

The process of releasing data underscores an important insight about its content. Many elements of the Article IV reports contain private information. The historical data in Article IV reports can be found in standard IMF and World Bank data sources. The current data in Article IV reports often has yet to be released into standard IMF and World Bank data sources. The projections of future trends (in country debt and reserves, for example) are information that would not have been made public by the Fund prior to 1997. In addition, the Fund’s overall assessment of the state of the country’s economy is also something that was only shared with the country being consulted prior to 1997. The fact that countries do try to edit findings from Article IV consultations suggests that the content of the reports can be controversial, and that the IMF is releasing information that was previously unavailable to markets.

Over time, the norm of making the findings of Article IV consultations public has strengthened. Between July 1999 and June 2001, 83% of country PINs were published, and 47% of the Article IV staff reports were published. Between November 2007 and December 2008, 97% of PINs were published, and 82% of Article IV staff reports were published. So, not only has there been more transparency over time, but also more substantive transparency over time. The evolution of these trends globally appears in Figure One below.

FIGURE ONE ABOUT HERE

How have previous studies approached this question?

The existence of a deepening norm of transparency has been the subject of an intense literature. Scholars have made arguments tracing transparency to factors internal to countries as well as external to them. One of the consistent arguments aimed at explaining variations in a country's level of transparency is democracy. Democratic regimes, because they are more transparent at home, are more capable of making credible commitments and are more transparent abroad (Gaubatz 1996; Grigorescu 2003; Hollyer, Rosendorff, Vreeland 2010; Lebovic 2006; Saiegh 2005; Schultz and Weingast 2003).

It is worth noting that the finding on democracy and transparency in the literature is robust to different operationalizations. Hollyer et al find that democracies are more transparent (i.e. more likely to release data to the World Bank) regardless of whether measures from POLITY or an updated version of the Prezworski, et al data (Cheibub, Gandhi, and Vreeland 2010). Glennerster and Shin (2008) find links between the Kaufmann, Kraay and Mastruzzi (2007) governance measures and country decisions to release Article IV staff reports.

The above discussion, in turn, suggests that it is important to control for the state of the economy. Glennerster and Shin (2008) control for a country's level of debt in their model of data release, but this is not the only possibility here. Levels of trade and financial openness, the sustainability of the current account, and levels of economic growth might all shape country decisions to allow the IMF to release information regarding the Article IV consultation. These variables might move in either direction, as countries might be willing to release data to signal that their economy is performing well despite constraints, or that their economy is outperforming others.

Finally, a growing literature focuses on the international sources of policy change, and it is important to address these claims as well. Simmons, Dobbin, and Garrett (2008) argue that four

mechanisms -- coercion, competition, emulation, and learning—account for the diffusion of policies globally. Certainly in this project, Article IV transparency has emerged as an increasingly strengthening global norm that is part of the IMF’s surveillance mission (Pauly 1997). One way to approach the coercion angle is to look at the extent to which IMF lending has produced changes in transparency. As Mukherjee and Singer (2010) note, it is important to be clear about the casual mechanism linking the IMF to policy change, since leaders can use the program as domestic cover to adopt reforms that they would not have done but for the presence of the IMF program. To infer that conditionality played a direct role in policy change in such a case, therefore, would be a faulty inference.

Policy change need not solely come from the IFIs, indeed it might be shaped by the policy choices of peer countries (Simmons and Elkins 2004; Simmons 2000; Simmons, Dobbin, and Garrett 2008). As noted below, regional differences in release rates for both PINs and Article IV staff reports do exist, arguably because the content of each of these reports differ, and these contexts might produce differing incentives for countries to converge or diverge from the “peer standard.”

Research Design

What constitutes transparency with respect to a country’s Article IV consultation has changed over time. From April 1997 to March 1999, the only option that countries had was whether or not to have the Fund release a PIN following completion of the Executive Board’s review of the consultation. From April 1999 on, countries had a second option to release the staff report as well in addition to the PIN.

We've created a cross-national dataset from 1996 to 2008 to help understand the sources of these transparency choices based on including all IMF member countries. The dependent variable is a simple dichotomous coding for the dependent variable (zero-one) for whether or not a PIN or staff report is released as a result of a given consultation. Information on who has or has not released staff reports and PINs is available in the Annual Reports of the IMF as well as its Triennial Reviews of Surveillance and through the IMF website.

We explore the relative influence of four alternative explanations for variations in transparency: democracy, economic factors, regional behavior, and the role of IMF lending. The independent variables are operationalized in the following manner. First, for regime type, we use the POLITY scale lagged one year in which positive values indicate more democratic countries. We also use a dichotomous measure of democracy taken from Cheibub, Gandhi, and Vreeland (2010) as a robustness check. It is worth noting that every single finding in this paper regarding the effects of democracy on Article IV transparency holds regardless of measure.⁵

To these the impact of regional behavior on country decisions to release PINs and staff reports, we first divided countries into regions according to the World Bank's classification scheme.⁶ On the basis of this scheme, we calculated the percentage of countries in each region that released PINs or Staff Reports in the previous year.

We test the impact of IMF lending using program data from the IMF's Annual Reports. We include a dummy for whether or not the country was under an IMF program in the previous year, and as an additional robustness check we count the number of years in our data that a country has been under an IMF adjustment program. This second measure is also lagged one year.

⁵ Results available upon request.

⁶ <http://data.worldbank.org/about/country-classifications/country-and-lending-groups>

Finally, we control for economic variables using data from the World Development Indicators. This includes variables such as the country's level of GDP growth, reserves of foreign currency calculated in months of imports, debt service calculated as a percentage of exports, and the current account balance as a percentage of GDP. Each of these variables is used as an annual change or lagged as noted below. Additional controls are used below as robustness measures, including trade (also from World Development Indicators), a country's exchange rate, and capital account openness. We use updated data from Reinhart and Rogoff's (2004) coarse classification of country exchange rates. We use Chinn and Ito's (2007) index as a measure for capital account openness. All of these variables are lagged one year as well.

We model the release of PINs and staff reports through separate logit models. The use of two discrete logit models to account for what seem to be interconnected decisions makes intuitive sense. While it is true that countries do not release staff reports if they don't release a PIN, sample selection bias does not appear to be a problem here. Since PIN release is practically universal, it is difficult to argue that a selection effect exists in the staff report model. More fundamentally, analyses using heckman logit models suggest that we cannot reject the hypothesis that the two equations are independent (or, more to the point, that the correlation between the error terms in the PIN release equation and the staff report release equation was equal to zero). Thus, the use of separate models for each stage is eminently defensible.

The above discussion of the evolution of transparency regarding IMF surveillance demonstrates that this is a process that has unfolded over time. Our modeling strategy takes this insight to heart, and we test these rival explanations head to head using five empirical tests. In the first, we focus on the decision to release a PIN in the pre-pilot program era. Second, we focus

on whether or not PINs are released in the “staff report” era. Third, we study whether or not staff reports are released during the so-called pilot program period. Finally, we study whether or not staff reports are released. Finally, we revisit the staff report model using a dynamic probit model.

In terms of the modeling strategy used in the results that follow, we employed a random effects logit model. Simply put, the use of fixed effects, which would drop out all of the cases in which countries never adopted transparency or always adopted transparency, always resulted in the loss of between 1/3 and 1/2 of the cases. A random effects model accounts for the country-level heterogeneity without the loss of data that fixed effects engender. The cases studied below are time period specific with a goal to understand which independent variables are significant across the time periods. These data are cross-sectionally dominant with a maximum T of nine years. In each of the models, the test for the random effects indicates that it outperforms a pooled model.⁸ It should be noted that we discuss inclusion of regional dummies, year dummies and cubic splines for robustness in each section below.

Findings

The first task is to estimate the decision whether or not to release a PIN. To start, we study only the pre-April 1999 period before the development of the Article IV Report Pilot Program.

TABLE ONE ABOUT HERE

As this table suggests, countries that are more democratic are more likely to release PINs compared to their counterparts. The coefficient for the lagged Polity2 score is appropriately

⁸The sole exception to this, as noted below, is the Article IV report pilot program.

signed and significant at a .01 level. Holding all other variables constant, moving the country from a nondemocracy to a fully democratic country increased the probability that it would release a PIN by 55%.

We also see evidence of a neighborhood effect here as well. The variable for lagged regional PIN release percentage is positive and statistically significant at a .01 level. Holding the other variables constant, changing the regional release percentage from its minimum to its maximum value increases the probability that a country will release a PIN by 53%.

We also see strong evidence of the effects of the economic control variables as well. Large increases in a country's level of debt service increase the likelihood that countries release their PINs, as this variable is statistically significant at a .05 level. Holding other variables constant, changing the year-on-year change in a country's level of debt service from the minimum to the maximum increases the probability that a country releases a PIN by 81%.

Similarly, a country's annual change in its level of reserves is positively related to PIN release at a .05 level. As a country's level of reserves increases from the minimum to the maximum values, the probability that a country releases a PIN increases by 62%. In this model, debt service is measured as a percentage of exports, and reserves are measured in terms of months of imports. So, countries with high debt/export ratios and high reserves/imports ratios are more transparent. It is worth noting at this point that these are two cross-cutting logics at work here. Countries with increasing debt levels sought to release PINs for *reassurance*; countries with increasing levels of reserves sought to release PINs to signal *financial strength*.

It is worth noting that the variable for IMF programs was not statistically significant, nor was lagged GDP per capita. Either as a dummy variable indicated whether the country was under an IMF program in the previous year or as a count of total years under IMF programs did not

matter. Moreover, variables for lagged growth and lagged trade/GDP were not significant, nor were variables for the countries' exchange rate and capital account openness. Turning to other issues of robustness, regional dummies were not significant in this equation, nor were temporal dummies for the years 1998 and 1999.

While this model helps us to understand the initial days of the PIN release program, it raises the question of whether the same types of explanations account for the decisions to release PINs for the remainder of the time period for which we have data (from April 1, 1999 to December 31, 2008). As shown below, some of the explanations noted above retain their salience, while others are no longer significant once countries had the additional option to release a staff report. This is shown in the table below.

TABLE TWO ABOUT HERE

As this table suggests, countries that are more democratic are more likely to release PINs compared to their counterparts. The coefficient for the lagged Polity2 score is appropriately signed and significant at a .01 level. Holding all of the other variables constant, moving the country from a nondemocracy to a fully democratic country increased the probability that it would release a PIN by 22%. Thus, the previous finding regarding the effect of democracy on the initial period of PIN release holds up in the analysis of subsequent years.

We also see strong evidence of the effects of the economic control variables as well. While neither the lagged current account balance nor annual change in reserves and debt were statistically significant, in this model lagged GDP per capita and growth both were. Wealthier countries are more likely to release PINs, as this variable is statistically significant at

a.05 level. Holding other variables constant, changing a country's lagged GDP per capita from the minimum to the maximum increases the probability that a country releases a PIN by 8%.

Similarly, a country's level of growth is positively related to PIN release at a .01 level. As a country's level of growth increases from the minimum to the maximum values, the probability that a country releases a PIN increases by 31%. Comparing these findings to the model for the initial years of PIN release is illustrative. Wealthier countries and those with high levels of growth are more transparent. These countries sought to release PINs not for *reassurance*, but to signal *financial strength*.

In contrast to Table One, we also no longer see evidence of neighborhood effects. While appropriately signed, the variable for the lagged regional PIN release percentage is not statistically significant in this larger sample. This suggests that the role of peer pressure is temporally contingent; in the early days of articulating new international standards, country decisions on whether to adhere to them (in this case, release PINs) is driven by what neighboring countries do. As the standards take hold, decisions are more driven by independent factors; countries can pick and choose to adhere to standards based on internal factors and peer pressure binds less. We return to this argument again in a subsequent section.

As in Table One, we continue to see no evidence that IMF lending shapes decisions about transparency. The variable for whether or not a country was under an IMF program in the previous year was not statistically significant, nor was a count of the total number of years that a country was under IMF adjustment programs. Taken as a whole, we see little evidence that decisions about transparency are shaped by decisions about regarding IMF lending and conditionality.

In terms of robustness checks, this model was reestimated with a set of year dummies to control for the trend, cubic splines to control for duration dependence, and regional dummies to further control for differences in release rates between regions. Taken together, the year dummies were not statistically significant, and the coefficients were unchanged. A set of cubic splines (following Beck, Katz, and Tucker 1997) were statistically significant, indicating duration dependence.⁹ While not surprising, the coefficients (in terms of sign and significance) of the main results were unchanged following the addition of the cubic splines. Substantively, the presence of duration dependence tells us that a country's decision to release a PIN at time 1 is shaped by its decision to release or not during the previous consultation. Adding dummies for region did not alter the results – the coefficients presented in Table Two were appropriately signed and statistically significant after controlling for whether the country was in Latin America, East Asia, Middle East/North Africa, Sub-Saharan Africa, South Asia, or Europe and Central Asia. The regional dummies themselves were insignificant as a group. In addition, a simple OECD dummy entered into the regression by itself was not significant in this model, nor did it alter the main results.

Finally, we attempted additional tests adding variables for lagged trade/GDP, as well as variables for the countries' exchange rate and capital account openness. In no cases were these additional regressors significant. Moreover, addition of these alternative variables did not alter the main results presented above.

Taken together, then, the picture here suggests an enduring role for democracy as a determinant of transparency. In addition, we also see that countries with stronger economies (as

⁹ The use of splines rather than year dummies tells a different story about the data, not about its overall trend, but about the effect of past decisions on a country's present decisions. We include these splines here rather than in the previous model because of the longer time frame, since they are not appropriate for models with a short number of time periods.

noted by current account surpluses and high growth) are also more likely to release PINs. The findings for neighborhood effects are not supported in this longer subsample.

Since inception of the program in 1997, PIN release has basically approximated a global norm. To suggest a similar result for full release of the Article IV reports, however, would be a mistake. Here the release rates by region are much more heterogenous and many of the regions that are transparent with respect to PINs are not with respect to the full Article IV staff reports. This is shown in the table below.

TABLE THREE ABOUT HERE

The reason why there is less transparency about staff reports compared to PINs is arguably attributable to their content. Whereas the PIN is a brief press release written to summarize the Executive Board's deliberations on a country, the staff report is the document that the Executive Board actually sees. Not only is this more detailed in terms of the amount of information, the tone is also very different, as staff reports are more likely to be more pointed in diagnosing the problems that a country faces as well as possible solutions. The 2009 Article IV staff report on Greece, for example, called attention to the urgency of fiscal consolidation, the lack of political consensus within the country, and data weaknesses suggesting that the data that were provided to the Fund were inadequate to the task of helping the national authorities adopt appropriate policies. Less than a year later, the country was borrowing from the IMF as the economic crisis deepened.

This, in turn, raises the issue of what determines whether or not countries release their Article IV staff reports. In what follows below, we present the findings first for the Article IV pilot

program period, then the findings for all countries that could have released their staff report from April 1, 1999 to the end of 2008. As noted above, the pilot period ran from April 1999 to December 2000. There were a total of 215 consultations during this time period, and 61 countries released a total of 77 staff reports.

Because the pilot period was not even 24 full months, this has important consequences for the estimation strategy. We present two models below, initially controlling for regional effects by looking at the lagged *PIN release percentage* rather than the lagged report release percentage. Simply put, including a variable for lagged report release would cut the number of observations down to approximately 92. Thus, we also present a standard logit model (covering the year 2000 only) in which we include the lagged regional report release variable. Note that because this is a one year snapshot, there are no cross-sectional controls.

These results appear in the table below.

TABLE FOUR ABOUT HERE

What do these findings suggest? As with the previous models, we see a strong link between democracy and participation in the Article IV pilot program. Controlling for all other variables, democratic countries were more likely to participate in the pilot program. We also found a link between economic variables and transparency, as wealthier countries were more likely to participate in the pilot program. We saw no link between IMF programs and country participation in the Article IV pilot program.

The role of regional effects here is contingent. The first model (in the middle column of Table Four) includes a variable for regional PIN release, which is not significant. Thus, countries

in regions with a high level of PIN releases (such as the OECD) or a low level of PIN releases (such as Europe and Central Asia) were equally likely to release a Staff Report. The second model (in the rightmost column of Table Four) suggests a different dynamic altogether. Countries in regions which had a high proportion of **staff report releases** in 1999 were more likely to release their own staff report in the following year. This finding is robust to extant economic controls, including GDP per capita, growth, and the current account balance. Thus, while it is true that regional behavior did not affect staff report release, this is only true insofar as we are talking about PIN releases, not staff report releases. This corroborates the previous findings.

The final empirical test evaluates the strength of our alternative explanations on all years of staff report release (April 1, 1999 through to the end of 2008). These findings appear in the table below.

TABLE FIVE ABOUT HERE

As this table suggests, countries that are more democratic are more likely to release PINs compared to their counterparts. The coefficient for the lagged Polity2 score is appropriately signed and significant at a .05 level. Holding all other variables constant, moving the country from a nondemocracy to a fully democratic country increased the probability that it would release a staff report by 20%. Thus, the previous findings regarding the effect of democracy on country decisions to release PINs hold here for staff reports as well.

We also see evidence of a neighborhood effect here as well. The variable for lagged regional staff report release percentage is positive and statistically significant at a .01 level. Holding the

other variables constant, changing the regional release percentage from its minimum to its maximum value increases the probability that a country will release a staff report by 60%.

We also have some evidence of the effects of the economic control variables as well. The variable for GDP per capita was positive and statistically significant at a .01 level, suggesting that wealthier countries are more likely to be transparent. Holding the other variables constant, changing country wealth from its minimum to maximum values increases the probability that a country releases a staff report by 60%. The lagged current account balance was not statistically significant. Growth, on the other hand, was statistically significant, suggesting that countries that are growing faster are more transparent, though this coefficient is only significant at a .10 level. In other words, there appears to be no difference in the probability between countries with current account surpluses and deficits, but there is weak evidence that differences in transparency exist between slow and fast growing countries, and strong evidence for differences in transparency between wealthy and poor countries.

In Tables One and Two, we saw no evidence that IMF lending shapes decisions about transparency. The variable for whether or not a country was under an IMF program in the previous year was positive and statistically significant. Countries under IMF programs in the previous year are 9% more transparent than non-program countries. It does seem that Fund borrowers are more likely to release data, though the impact of this coefficient is modest compared to that of rival explanations.

We might be making too much of this story, though. One explanation for this finding might simply have to do with reporting. The Fund has bundled quarterly program reviews as well as letters of intent with the Article IV process, so it's difficult to say whether this represents leverage or bookkeeping. Notably, a count of the total number of years that a country was under

IMF adjustment programs was not statistically significant. Future analysis of this question will focus more on money flows from the IMF to address this problem and clarify the mechanism.

In terms of robustness checks, this model was reestimated with a set of year dummies to control for the trend, cubic splines to control for duration dependence, and regional dummies to further control for differences in release rates between regions. Taken together, the year dummies were statistically significant at a .05 level, and the reported results were unchanged. A set of cubic splines (following Beck, Katz, and Tucker 1997) were statistically significant, indicating duration dependence. With the addition of the cubic splines, the reported coefficients remained appropriately signed and significant. Substantively, the presence of duration dependence tells us that a country's decision to release a staff report at time 1 is shaped by its decision to release or not during the previous consultation. Unlike the second model for PIN release presented above, here regional dummies were statistically significant. The only individual regional dummy that was statistically significant was Latin America, which was negative and statistically significant at a .05 level. The regional dummies collectively were insignificant as a group. The main results were unchanged after we controlled for regional distinctions.

Finally, we attempted additional tests adding variables for lagged trade/GDP, as well as variables for the countries' exchange rate and capital account openness. In no cases were these additional regressors significant. The addition of each of these additional regressors did not change the findings on democracy, GDP per capita, or regional report release, but the lagged IMF program variable was now no longer significant at a .05 level in a model controlling for the country's exchange rate regime..

Summarizing the findings for this test on Article IV staff reports, we see strong evidence in support of a link between democracy and transparency, and strong evidence suggesting that regional effects are at work in shaping country choices regarding transparency. We found some evidence for economic variables, and some evidence suggesting a role for IMF adjustment programs in shaping country choices for or against greater transparency.

An Extension: Moving To (or From) Article IV Transparency

A recap of the findings is in order. The dependent variable is whether or not a country releases the findings of its Article IV consultation with the Fund – and this is measured dichotomously whether we are talking about PINs or Staff Reports. We've found that democracies are more likely to be transparent, and that regional pressures matter; countries in regions wherein data is released themselves have a higher probability of data release. We've also found that economic variables matter and that IMF programs can affect the incidence of staff report release.

A skeptic could claim that what we've done here is a bit of methodological sleight of hand. Since the dependent variable takes on a value of 1 if a country releases data, we can't tell from this if that represents the first release following a long period of non-transparency, or the tenth release in a pattern of transparency. This has important implications for the claims we advance here. If domestic political factors don't make countries transparent in the first place, then it is much harder to assess the broader theoretical implications. Thus, this is a methodological issue with theoretical implications. The democratic transitions scholarship (Przeworski et al 2000; Boix and Stokes 2003) takes special pains to distinguish the factors that

produce democracies from the factors that *sustain* democracies. This research offers a strategy moving forward.

The model used in this work is known as a dynamic logit (Amemiya 1985), so called because it allows to assess the effects of the independent variables on the dependent variable through case selection. Essentially, it means estimating the model on the dependent variable first for all of the cases in which the dependent variable equals zero for the prior year, and then estimating the model for all of the cases in which the dependent variable equals one for the prior year. The results for the first equation, then, tell us about the determinants of moving from non-transparency to transparency, and the second tells us about the factors that sustain transparency (by moving from transparency to transparency).¹⁰

This is a helpful strategy since it better aligns the hypotheses with the data, but it has one complication compared to the empirical scholarship on democratic transitions. Simply put, the Fund does not conduct Article IV consultations on all 189 of its surveillance-eligible members every 12 months. Smaller countries are only consulted every two years. Over the 1996-2008 time period, the Fund averaged 128 consultations per year. Without distorting the dependent variable (by counting counties as transparent or non transparent on the basis of consultations that might not have happened in that year), there are some observations that are lost here.

What weve done is estimate a dynamic logit using the three explanations that seem to be most essential in this project (democracy, regional pressure, and IMF programs).¹¹ The dependent variable is report release, which makes sense because there's much more variation in

¹⁰ By extension, then, this can also be interpreted as the factors that cause countries to move from transparency to non-transparency.

¹¹ The non-findings on economic variables on report release noted in Table Five appeared here as well. Trade, Debt, Growth, Reserves, the Current Account Balance, and the exchange rate regime and capital account openness were not significant across a single one of these models.

this than in PIN release, which is approximating a constant in this data. (In other words, releasing a PIN is something that most countries already do; the norm for report release is much weaker in comparison.) The results are shown in the table below.

TABLE SIX ABOUT HERE

Three key findings emerge from this table. First, democracies are more likely not only to become transparent, but also to remain transparent. Second, regional behavior matters for moving countries to transparency, but doesn't sustain a country's commitment to transparency. Finally, this model supports what we've already seen – Fund programs don't generate transparency. The results on democracy support the previous findings and further suggest that democratic governance and transparency go hand in hand. It should be noted that this finding is not an artifice of operationalization (Przeworski's dichotomous measure produces the same result), nor is it an artifice of model specification, as the finding is robust when we control for GDP per capita. In other words, controlling for differences in cross-national wealth does not alter the link between democracy and Article IV report transparency. Changing a country from a non-democracy to a democracy (from minimum to maximum Polity2 score, *ceteris paribus*) increases the probability that reports are initially released by 31%. Moving this score also increases the probability that reports are released in subsequent years by 19%. Again, democracy matters not merely in the move to transparency, but also in the emergence of transparency as an equilibrium policy.

At the same time, we see support for regional dynamics here as well. Countries in a region with other transparent countries do face pressures to emulate their policies. Holding

everything else constant, moving a non-transparent country from a non-transparent region (such as Sub-Saharan Africa in 2000) to a region comprised of transparent countries (such as the OECD) increases the probability that a country releases a report by 35%. While we see important convergence pressures across regions in adopting a standard of report transparency, it does not hold over time. Because it's not significant in the remain transparent model, this tells us that the influence of these external pressures is not constant over time. Country decisions to remain transparent seem to be more powerfully explained by domestic rather than systemic factors. In a sense, this finding resembles the norm life-cycle model suggested by Finnemore and Sikkink (1998). Over time as a norm instantiates within regions, it takes on a taken-for-granted quality.

Importantly, this model was estimated with regional dummy variables for Latin America and Sub-Saharan Africa. Countries in Latin America were less likely to release reports (in other words, either become or remain transparent) and countries in Sub-Saharan Africa were less likely to remain transparent. Put another way, the average duration of transparency was shorter in this part of the world compared to other regions. More work on unpacking these regional dynamics is essential to move forward.

Summary of Findings

Across the empirical tests, we can summarize the findings in the table below

TABLE SEVEN ABOUT HERE

What are the broader lessons to take away from this project? First, this study supports previous findings linking democracy to international transparency. Since democracy is a

multidimensional concept, we need to be clearer about what aspects of democracy contribute to transparency – is it press freedom? Is it political competition? Though we lack the space to build on these findings at this point, these remain questions worthy of further appraisal. It should be stressed that these findings are not an artifice of operationalization, as replacing the polity score with a dichotomous democracy variable from Cheibub, Gandhi, and Vreeland (2010) produces similar findings across these models.

Finally, in terms of the findings between regional PIN/staff report release and country choices, what's the mechanism underpinning these findings? Simmons, Dobbin, and Garrett (2008) argue for four mechanisms for studying the diffusion of policies – coercion, competition, emulation, and learning. What does the evidence suggest about these mechanisms? Preliminarily, we can say that there is little support for coercion here – we found little evidence across the four models for a link between IMF programs and country decisions regarding transparency, and what we did find can be a little suspect given what we know about how these processes unfold at the Fund.

A similar preliminary analysis suggests that competition is not driving these results. If competitive dynamics are at work accounting for the effects of the regional release variable, then we might expect differences in the effect of regional release on transparency to vary with country openness. Put another way, those countries that are more open ought to be more attuned to what other countries in the region are doing. As a result, we would expect that the regional release percentage variable should have a greater impact on decisions to release staff reports in those countries that are more open to trade and capital. Interactive tests using trade as a percentage of GDP and the Chinn-Ito capital openness measure do not support this claim. Simmons, Dobbins and Garrett (2008:19-20) suggest that this can only be a preliminary test of a competition

argument, since we're not linking the transparency choices of a state to the choices of its trade or capital competitors. This is an area in which more research is needed.

Turning to emulation, this argument suggests that countries simply imitate their neighbors, which would account for the positive findings that we've seen for regional PIN and staff report release. However, the mechanism underpinning emulation seems a little thin – and to be fair, we're limited about how we can test this using the data that we presently have. One empirical test on emulation, though, bears noting. Shipan and Volden (2008), in their study of municipal choices to adopt anti-smoking policy, suggest that the effects of emulation are largely short-term. In their model, cities are solely looking at what their neighbors are doing and are responding reactively rather than developing independent research about the effects of anti-smoking ordinances in their own community. As a result, Shipan and Volden suggest that the size of the substantive effect of emulation should be rather short-lived compared to other mechanisms. This insight might prove helpful as this project moves forward.

Reestimating these models with a different measure of regional release seems to provide some clarity. Recalculating the release percentage as the percentage of bordering states (ala Simmons and Elkins 2004), we note the following. Release percentage operationalized in terms of contiguity is appropriately signed and statistically significant in all of the models but the dynamic logit. It is significant in the second model of PIN release (where regional release percentage was no longer significant), though it does not appear that decisions to release staff reports or remain releasing staff reports is driven by the behavior of bordering states. Future research will investigate the behavior of key trading partners to better unpack this mechanism.

A similar challenge awaits us for ascertaining if learning is accounting for this result. Simmons, Dobbins, and Garrett (2008:29) suggest that policies that seem to work might be much

more likely to cause leaders to update their prior beliefs about the success of similar policies at home, and thence adopt new standards. If this is true, then we might look to explain a country's release of Article IV staff reports not with respect to prior regional decisions taken in the previous year, but rather look back further. What this suggests is that controlling for other variables, the extent of a region's participation in the Article IV pilot program might affect whether or not a country releases a staff report in the present. Of course, we'd need to establish the precedence of the independent variable before the dependent variable; otherwise this test would not differ considerably from the present form of the tests presented above. Some analysis based on different temporal subsamples (from 2001-present) might suffice here.

Further Implications

Quite obviously, this is the first step in a much larger project, and there is a great deal more to be done here to understand the evolution of transparency in IMF surveillance. Future directions in this project are two-fold: developing a better understanding of regional distinctions and assessing the broader implications for themes in IPE scholarship. We address each in turn.

Not all regions in this project are the same. One of the findings in the staff report model was that controlling for all other variables, countries in Latin America are significantly less likely to release staff reports. Future work will require a more in-depth analysis of Latin American countries to understand why a region with so many democracies still experiences such a low degree of transparency.

Finally, this project allows us an entrée into broader debates in the field of international political economy. While whole forests have fallen in the debate about whether democracy leads to greater openness, or whether economic integration and democracy are compatible, it's clear

that what we need in this issue is less hyperbole and more nuance. Understanding why countries might choose transparency then invites the question of whether this transparency matters and produces better policy outcomes. If this is the case, then we've seen the creation of a virtuous circle (ala O Neal and Russett 2001) that can help us to better understand how democracy and openness can coexist.

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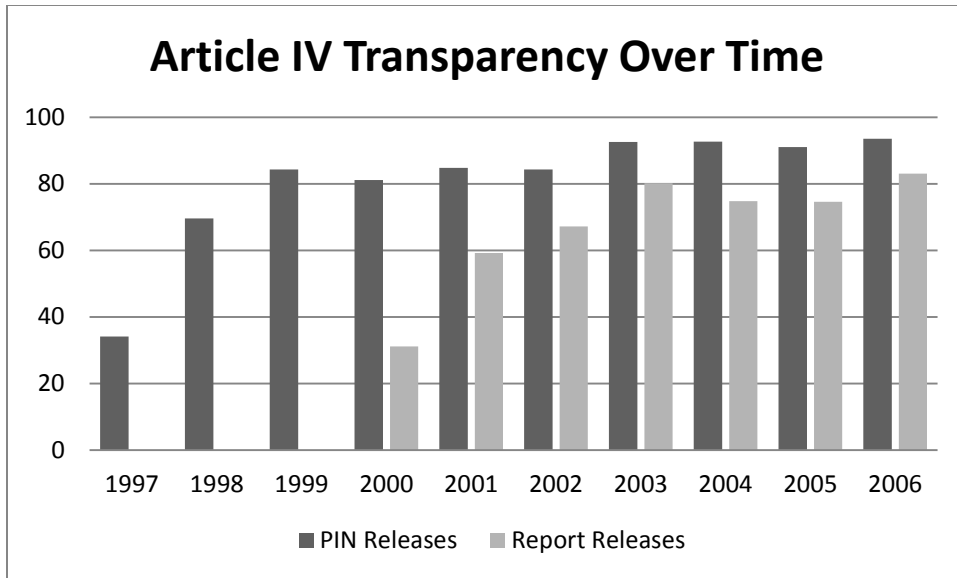


Figure 1

Table One: PIN Model Pre-Pilot Program		
	Coef / SE	Change in Predicted Probability (Min – Max)
Lagged Polity2 Score	.1906** (.0647)	54.95%
Lagged GDP per capita	-.00028 (.00024)	
Change in Debt Service	.1533* (.0631)	80.85%
Change in Reserves	.8626* (.3591)	62.33%
Lagged IMF Program	-.4250 (.6715)	
Lagged Regional PIN Release Percentage	.0582** (.0169)	53.07%
Constant	-.5670 (.6899)	
Observations 141 (94 Countries) * significant at 5%; ** significant at 1% Chi-square test for model: 0.0062 Chi-square test for random effects: 0.034 Percent Correctly Predicted: 73.05%		

Table Two: PIN Model Post-Pilot Program		
	Coef / SE	Change in Predicted Probability (Min – Max)
Lagged Polity2 Score	.1483** (.0328)	21.60%
Lagged Current Account Balance	.0259 (.0175)	
Lagged GDP Growth	.1124** (.0380)	31.30%
Lagged GDP per capita	.00008 (.00004)	7.99%
Lagged IMF Program	.2019 (.3580)	
Lagged Regional PIN Release Percentage	.0115 (.0101)	
Constant	.8265 (.8356)	
Observations 910 (139 Countries) * significant at 5%; ** significant at 1% Chi-square test for model: 0.0000 Chi-square test for random effects: 0.000 Percent Correctly Predicted: 91.32%		

Table Three: Transparency By Region, 2008		
	PIN Release Percentage	Staff Report Release Percentage
OECD Countries	100	100
Latin America	100	59
Middle East / North Africa	85	54
East Asia / Pacific	100	55
Sub-Saharan Africa	81	46
Europe / Central Asia	64	60
South Asia	75	63

Table Four: Staff Report Pilot Period Model		
	Coef / SE	Coef / SE
Lagged Polity2 Score	.2046** (.0663)	.1496* (.0608)
Lagged GDP per capita	.00015** (00005)	.000085† (000049)
Lagged Current Account Balance	-.0156 (.0402)	-.0084 (.0439)
Lagged GDP Growth	.1385† (.0790)	.1380 (.0913)
Lagged IMF Program	.3149 (.6324)	-.0485 (.6895)
Lagged Regional PIN Release Percentage	-.00018 (.0240)	
Year Dummy: 2000	1.584* (.6333)	
Lagged Regional Report Release Percentage		.0581* (.0234)
Constant	-4.327* (1.718)	-3.050** (.7350)
Observations 162 (124 Countries), 92 (92 countries) † significant at 10%; * significant at 5%; ** significant at 1% Chi-square test for model: 0.0007 (Both models) Chi-square test for random effects: 0.158; .455 Percent Correctly Predicted: 77.16%, 83.70%		

Table Five: Staff Report Release Model (All Staff Period Years)		
	Coef / SE	Change in Predicted Probability (Min – Max)
Lagged Polity2 Score	.1056* (.0349)	20.08%
Lagged Current Account Balance	-.0237 (.0174)	
Lagged GDP Growth	.0592† (.0336)	
Lagged GDP per capita	.000122** (.000035)	28.86%
Lagged IMF Program	.7943* (.3302)	8.58%
Lagged Regional Report Release Percentage	.0392** (.0054)	60.28%
Constant	-2.497** (.4502)	
Observations 834 (139 Countries) † significant at 10%; * significant at 5%; ** significant at 1% Chi-square test for model: 0.0000 Chi-square test for random effects: 0.000 Percent Correctly Predicted: 78.66%		

Table Six: Dynamic Logit Model		
	Become Transparent	Remain Transparent
Democracy	.1077* (.0499)	.1519** (.0513)
Regional Report Release	.0303* (.0127)	.0015 (.0150)
IMF Program	.5560 (.6475)	.2799 (.7092)
Model Statistics	162 observations (80 countries) Chi-Squared test for Model: .0439 Chi-Squared test for Random Effects: .001 Percent Correctly Predicted: 64.81%	428 observations (120 countries) Chi-Squared test for Model: .0029 Chi-Squared test for Random Effects: .007 Percent Correctly Predicted: 92.76%

Table Seven: Summary of Findings					
	PIN Pre-Pilot	PIN Pilot program to 2008	Staff Report Pilot Program	Staff Report All Years	Staff Report All Years Dynamic Model
Democracy	√ +	√ +	√ +	√ +	√ + (Both become and remain)
Domestic Economy	√ + Reassurance Strength	√ + Strength	√ + Wealth	√ + Wealth	
Regional Behavior	√ +		√ +		√ + (Become transparent only)
Role of IMF				√ +	
<p>Empty cells represent coefficients that are not statistically significant at a .05 level. √ + represents a coefficient that is positive and significant at a .05 level or better √ - represents a coefficient that is negative and significant at a .05 level or better</p>					