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The International Monetary Fund in the Global Economy

The explosive growth and increasing complexity of global financial markets are defining characteristics of the contemporary world economy. Unfortunately, financial globalization has been accompanied by a marked increase in the frequency and severity of financial crises. The International Monetary Fund (IMF) has taken a central role in managing these crises through its loans to developing countries. Despite extensive analysis and criticism of the IMF in recent years, key questions remain unanswered. Why does the Fund treat some countries more generously than others? To what extent is IMF lending driven by political factors rather than economic concerns? In whose interests does the IMF act? In this book, Mark Copelovitch offers novel answers to these questions. Combining statistical analysis with detailed case studies, he demonstrates how the politics and policies of the IMF have evolved over the last three decades in response to fundamental changes in the composition of international capital flows.

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The International Monetary Fund in the Global Economy

Banks, Bonds, and Bailouts

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Preface

This book was written in the relative calm between two global financial storms. I began the research for this project in 2001, in the wake of the Asian financial crisis and shortly before Argentina's default on its $155 billion in external debt. As I finish writing, in the autumn of 2009, the world economy is beginning a slow recovery from the most severe financial crisis since the Great Depression. As the financial turmoil has deepened and spread across the globe over the last two years, the IMF, once again, has assumed a central role in efforts to restore and maintain international financial stability. As of November 2009 the Fund has provided more than $85 billion in credit to eighteen countries hit hardest by the crisis, including Belarus, Iceland, Hungary, Latvia, Pakistan, Romania, and Ukraine. In addition, the IMF has also committed an additional $80 billion to three countries (Colombia, Mexico, and Poland) under the terms of its new crisis prevention lending arrangement, the Flexible Credit Line.

This resurgence in IMF lending represents a sharp reversal from the start of the decade, when few emerging market countries borrowed from the Fund and many observers questioned the continued relevance of – and need for – the IMF in an apparently stable global economy awash in private international capital flows. In contrast, the focus today has shifted toward the urgent need to strengthen the Fund, in order to ensure that it has sufficient resources to meet its members' needs during the current crisis. In February 2009 the Japanese government committed an additional $100 billion to bolster the Fund's $250 billion in lendable resources. Soon afterwards Dominique Strauss-Kahn, the IMF's managing director, announced plans to seek a doubling of the Fund's coffers to $500 billion – a plan subsequently endorsed by the new US Treasury secretary, Timothy Geithner. In March the European Union (EU) responded with its own commitment to provide $100 billion in resources to the Fund. At the Group of Twenty summit in London in April, these pledges were reinforced by a formal commitment on the part of G-20 governments to triple the Fund's resources to $750 billion, through a mix of $500 billion in loans and a one-time issuance of $250 billion in special drawing rights (SDRs), the IMF's notional currency.[1] In addition to these commitments to increase the IMF's lending capacity, the issues of reforming both the governance of the Fund and the tasks it performs have once again been placed on the international agenda. Indeed, IMF reform is once again a central topic of discussion among economic policymakers in both the developed and developing worlds.[2]

Thus, to paraphrase Mark Twain, reports of the IMF's death have been greatly exaggerated. Rather than becoming obsolete, the Fund remains a central force in the global economy, and understanding how it operates is critical if we are to make informed decisions about whether (and how) to reform the institutions and rules of global financial governance. In emphasizing the highly political nature of IMF lending, as well as the ways in which financial globalization has altered the Fund's policies over time, this book may therefore benefit policymakers as they seek to identify and implement effective and feasible policy responses to the current global financial crisis. At the same time, the arguments and findings in this book contribute to ongoing scholarly research in political science and economics. Analytically, the book clarifies our understanding of the complex connections between international economics and international politics. In addition, by explaining the policies and behavior of one of the most prominent multilateral institutions, it sheds light on the determinants of international cooperation more generally. In short, both economic policymakers and scholars of international political economy will, I hope, find much of interest in the pages that follow.

This book is the culmination of nearly eight years of research that began during my graduate study in the Department of Government at Harvard University. In truth, however, its roots go back even further. Indeed, I owe a great debt to my professors in the Directed Studies program and the Political Science and Economics Departments at

[1] Mark Landler and David E. Sanger, "G-20 pact has new rules and $1.1 trillion in loan pledges" (www.nytimes.com/2009/04/03/world/europe/03summit.html?_r=1&hp).

[2] See, for example, Edwin M. Truman, "IMF reform: an unfinished agenda" (www.petersoninstitute.org/publications/opeds/oped.cfm?ResearchID=1106).

Yale University, who first piqued my interest in the study of political economy and international relations as an undergraduate and who – though I did not realize it at the time – set me on the path toward an academic career. I owe particular thanks to Xavier Sala-i-Martin, who introduced me to the challenges and puzzles of macroeconomics, and to David Cameron and Yitzhak Brudny, whose courses and advice opened my eyes to the possibility of graduate study in political science.

As a graduate student in the Department of Government at Harvard University, I was privileged to have an exceptional group of faculty advisors and teachers. Jeff Frieden, my dissertation committee chair, offered tough criticism, strong encouragement, and sage advice at each stage of my studies, and he always managed to strike the right balance between the three. I owe my greatest intellectual and pedagogical debts to Jeff: he taught me most of what I know about international monetary and financial relations, emphasized the importance of clarity and rigor in my thinking, writing, and analysis, and instilled in me an appreciation of the fundamental and inextricable link between politics and economics. It is extremely rare in academia for a single individual to be a pre-eminent scholar, an engaging and talented teacher, and a true mentor. Jeff is all these things, and I am deeply indebted to him for the support and advice he has given me over the years. I have also come to overlook his one true fault – a misguided yet unwavering devotion to the New York Yankees – in light of these many redeeming qualities.

I am also extremely grateful to my other advisors at Harvard. Andy Moravcsik took me under his wing upon my arrival in Cambridge and offered me crucial guidance, helped me to secure much-needed funding, and gave me the opportunity to gain valuable research and teaching experience. He also provided incisive criticism throughout my dissertation research and always challenged me to think about the "big picture" in my work. Lisa Martin was always available to read and discuss my work, and her comments and suggestions invariably pushed me to clarify my thinking and focus my argument and analysis. Having benefited from Lisa's advice as her student, I am now extremely fortunate to call her a colleague at the University of Wisconsin. Unfortunately for Lisa, this allows me to lapse periodically into my former role and show up at her door seeking advice. Thus, I also owe Lisa particular thanks for reading and commenting on the final version of this book manuscript. Finally, Michael Hiscox helped me to think through the connections between international trade and finance, and he offered critical advice as I was navigating the academic job market. I have been extremely fortunate to train with and learn from such talented individuals, and I owe them my thanks and appreciation.

I also have many friends and colleagues to thank for their help in completing this project. In particular, I owe special thanks to David Singer for his feedback and support. Over the years David has preceded me at each stage of graduate school, the academic job market, and the publishing process by a year or so; consequently, he has borne the unfortunate burden of my frequent pleas for advice along the way. Because he is a true mensch and friend, David has never complained about this harassment, and I'm enormously grateful for his help. I also owe many thanks to Jon Pevehouse, Nadav Shelef, and Hillel Soifer, each of whom read the entire manuscript and provided extremely detailed comments and suggestions. This book is undoubtedly better as a result. Any remaining errors and weaknesses remain my fault alone and are likely due to the fact that I – either foolishly or inadvertently – ignored their wise recommendations.

At Harvard, I was fortunate to find an unusually close and talented group of friends. My classmates and colleagues, including Fiona Barker, Tammy Frisby, Casey Klofstad, Shannon O'Neil, Sonal Pandya, Nathan Paxton, Will Phelan, David Singer, Hillel Soifer, and Annie Stilz, were – and continue to be – a welcome source of advice, intellectual engagement, and camaraderie. I also thank the many participants in the Research Workshop on Political Economy and the Weatherhead Center for International Affairs graduate workshop for their helpful comments and suggestions at early stages of this project. Finally, my friends outside academia, whether by politely listening to me discuss my research, or simply by forcing me to forget about it periodically, also deserve my deepest thanks.

This book was completed at the University of Wisconsin–Madison, where I have been on faculty since 2006. It is difficult to imagine a better environment in which to launch one's academic career. My colleagues in the Department of Political Science and the La Follette School of Public Affairs have been congenial and supportive, and I am deeply privileged to work with them. I owe particular thanks to my fellow assistant professors in political science – Helen Kinsella, Jimmy Klausen, Nils Ringe, and Nadav Shelef – for their comments and suggestions during our writing group meetings over the last year. In addition, I offer my thanks to Scott Gehlbach, Melanie Manion, and Scott Straus for their guidance at various stages of the writing and publishing process. Last, but certainly not least, I gratefully acknowledge the excellent research assistance provided by Andria Hayes-Bircher and Tom Hinds.

Many institutions have provided me with financial and research support for this project, and I am in their debt as well. At Wisconsin, I have received generous support from the Center for International Business Education and Research (CIBER), the Center for World Affairs and the Global Economy (WAGE), the Department of Political Science, the Graduate School, the International Institute, the Robert M. La Follette School of Public Affairs, and the Wisconsin Alumni Research Foundation (WARF). The Center for Globalization and Governance at Princeton University provided a wonderful environment in which to begin the book phase of this project, and I thank Helen Milner for the opportunity to spend the 2005/6 academic year in residence as a postdoctoral fellow. At Harvard, the Center for European Studies and the Weatherhead Center for International Affairs both provided me with office space, travel and research support, and intellectually rich environments in which to work. The Government Department, the Krupp Foundation, the Mellon Foundation, the Graduate Society, the Graduate Student Council, and the Graduate School of Arts and Sciences at Harvard all provided generous financial support that enabled me to complete the research and writing of my dissertation. My wife and I also had the privilege of living and working with the Harvard undergraduates and our fellow resident tutors at John Winthrop House for two years, from 2003 to 2005. One could not ask for a warmer and more interesting community of scholars and friends, let alone such wonderful babysitters!

The research and analysis in this book draw heavily on internal documents from the IMF archives in Washington, DC. I am especially grateful to Premela Isaac, Jean Marcoyeux, and the rest of the staff at the archives for arranging my initial visit, assisting me patiently as I conducted my research, and responding to my repeated e-mail requests for further information. Premela, in particular, deserves thanks for saving me several additional trips to Washington over the last three years as new documents of interest became available.

I also owe thanks to administrators and officials at the Bank for International Settlements, the European Central Bank, the Bank of England, and the UK Financial Services Authority, for facilitating visits during the course of my research that deeply enhanced my knowledge and understanding of economic policymaking and global financial governance.

It was a pleasure to work with John Haslam at Cambridge University Press. I thank John for his enthusiasm about the project and his efficiency in managing the review process. I also thank Carrie Cheek and Jo Breeze for their help in shepherding this book through the publication and editing process. Many thanks also go to the anonymous reviewers of the manuscript, whose comments were enormously helpful in improving the argument and quality of the book.

My greatest thanks and final acknowledgments go to my family. My elder sister, Natalie, was my first teacher and role model, and she has always been my biggest supporter, even from afar. My parents, Bernard and Temah Copelovitch, instilled in me a love for books and learning and encouraged me to take full advantage of the educational opportunities presented to me (though perhaps they did not expect me to take the lesson to heart for quite so long!). More importantly, they taught me the importance of family, determination, and hard work, and I am forever in their debt for the innumerable sacrifices they have made on my behalf. For years my father has sent me *New York Times* articles on international finance and the world economy, sometimes to solicit my opinion on the topic, but more frequently to ask whether I might find a job in the various New-York- or Washington-based institutions mentioned in the articles. I've always thought this was due to his worries that his son wasn't keeping busy (or getting paid) tucked away in the confines of academia. Hopefully, once he reads this, he'll agree that this wasn't the case. Either way, I hope the articles and questions keep coming.

I also owe thanks to my in-laws, Ken and Sue Cohn, for welcoming me into their family and home – and, most of all, for graciously not asking the question of how I was going to support their daughter (or grandchild) during my years in graduate school. I enjoyed my frequent conversations and visits with my "grandfather-in-law," Robert Rodman, who was fascinated by my research and eagerly awaited this book's arrival. Unfortunately, he passed away last year, but I am certain that he would have fervently read this book in the hopes of finding both the solution to the global financial crisis and advice on his investment portfolio.

Finally, I could not have completed this project without Beth, my wife and partner. This book is dedicated to her, since – like most everything in my life – it simply would not have happened without her by my side. Any words to describe how important she is to me, or how critical her support and love have been as I have worked to complete this project, will invariably fall short. I owe her, as well as our children, Micah and Dafna, my love and thanks for being there – and for waiting.

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