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**Working Paper**

## Upping the Ante for Political Economy Analysis of the International Financial Institutions

Claremont Colleges Working Papers in Economics, No. 2000-57

**Provided in Cooperation with:**

Department of Economics, Claremont McKenna College

*Suggested Citation:* Willett, Thomas D. (2000) : Upping the Ante for Political Economy Analysis of the International Financial Institutions, Claremont Colleges Working Papers in Economics, No. 2000-57, Claremont McKenna College, Department of Economics, Claremont, CA

This Version is available at:

<https://hdl.handle.net/10419/94659>

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**October 2000**  
**Comments Appreciated**

**Upping the Ante for Political Economy Analysis  
of the International Financial Institutions**

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## I. Introduction

Anyone reading about the international financial institutions (principally the International Monetary Fund and the World Bank) cannot help but be struck by the wide range of views expressed. This is perhaps not surprising with respect to normative opinions, but almost equally wide is the range of positive assumptions about how these institutions behave and the effects of their policies. Given the difficulties of interpreting the data thrown up by complex social interactions this might be expected. What is quite alarming, however, in the literature on the IFIs is the frequency with which writers ignore the vast range of disagreement and assume (usually implicitly) that one particular point of view is clearly correct. Thus critics of the IFIs from the far right and the far left have become political allies, seemingly not noticing that each side has reached its position by making exactly opposite (and offsetting) positive and normative assumptions. Thus while the far left sees and opposes the IMF as an agent of global capitalist interests, the far right opposes it instead as an agent of statism.

Again we should perhaps not be surprised that political activists pay little attention that their positive analysis is completely at odds with that of those on the opposite end of the political spectrum. When we turn to the academic literature, however, the state of analysis is not all that much better. Many (indeed I suspect most) treatments of the political economy of the IFIs in the academic literature view them through one or at most two lenses, and in the latter case it is often only to contrast the author's correct lens with a conventional wisdom based on some false lens.

In part this may reflect professional incentives. In both of the (partially overlapping) fields of public choice and of international political economy (IPE), the road

to quick recognition and advancement has been dominated by papers that advance innovative explanations that are contrasted favorably with some alternative. This is certainly legitimate science, but we have reached the point when the generation of interesting hypothesis has greatly exceeded our knowledge about their empirical relevance.

Of course collectively a good deal of empirical evidence – both quantitative and qualitative – has been presented. Public choice research has established beyond a doubt that rent seeking in the public arena is important, but this is not the same as showing that it is everything. In the early stages of the development of a theory or approach, it is quite appropriate to accept the standard showing that predictions of the analysis are consistent with important observations. Only if the approach passes such plausibility probes should it begin to be taken seriously for real world applications.

Public choice analysis has passed this stage with flying colors. Too often, however, at least in applications in the areas of macro and international economic policies and monetary and financial institutions, public choice analysts have been content to remain at this stage. Over time, however, such plausibility of probes should give way to critical experiments in which the criteria shifts from consistency of the theory with the data to the ability to explain or predict better than other theories or approaches. In this regard it is not sufficient to contrast specific public choice or IPE theories only with public interest alternatives. We have many specific theories within public choice – informed and uninformed median voter models, bureaucratic politics, etc - and we have massive amounts of empirical support for the propositions that all of these theories have some relevance and that none have complete explanatory power. This suggests that in

most applications our focus should be on the comparative explanatory power of a number of factors, rather than assuming the power of one particular public choice or IPE theory. Furthermore, sometimes different hypotheses will be compliments rather than substitutes.<sup>1</sup>

In the more mature stages that public choice and IPE research are now entering, more attention needs to be focused on developing and testing contingent analysis that pushes our theoretical analysis deeper. Such analysis should focus on the conditions most likely to affect the comparative explanatory power of primary factors or hypotheses across different issue areas, institutional arrangements, and specifics of economic and political conditions.<sup>2</sup> One purpose of this paper is to give an illustration of this type of analysis by considering the bureaucratic incentives for budget maximization across different types of institutional structures, specifically contrasting the IMF and the World Bank, organizations that are often lumped together in critiques of the IFIs.

A second purpose is to focus on some methodological issues concerning the standards of evidence for testing public choice and IPE hypotheses. These will be illustrated with respect to recent analysis of the IFIs by Roland Vaubel (1986), (1991) and (1996). These examples were not selected because Vaubel's analysis was particularly weak. To the contrary, in terms of the quality of scholarly contributions to positive political economy analysis of the IFIs, Vaubel's pioneering applications of public choice analysis must be give very high marks. In his original contribution to public choice analysis of international organizations in general, Vaubel (1986)

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<sup>1</sup> I have argued in Willett (1989) that this is often the case in trade policy, where both strong lobbying positions and at least superficially plausible appeals to public interest arguments appear to be helpful in securing protection.

<sup>2</sup> See Dillon, Odell, and Willett (1991).

demonstrated how such organizations are likely to have an unusually high degree of bureaucratic autonomy due to the weak incentives for careful monitoring by national governments and the general public. For similar reasons they are likely to be subject to a high degree of rent seeking from well organized special interests.

Vaubel then went on in subsequent contributions to explore in more detail bureaucratic incentives for non public interest behavior at the IMF and World Bank. He presented a hard-core version of public choice analysis in which considerable emphasis is put on bureaucratic incentives for budget maximization.<sup>3</sup> I have no doubts that such analysis has important explanatory power. This paper will argue, however, that Vaubel's analysis likely overstates the importance of such behavior, at least with respect to the International Monetary Fund.

One part of the analysis is theoretical and argues that the incentives for budget maximization are likely to be considerably greater at the World Bank than at the IMF. The second part is methodological and empirical. It argues that the evidence offered by Vaubel in support of his hypothesis is in fact much weaker than his discussions suggest. One major problem is that of observational equivalence. Evidence consistent with Vaubel hypotheses in some cases are equally consistent with other hypotheses.

An important issue here is differences in view about correct economic theory. Scholars often draw conclusions about positive policy economy from inferences based on particular economic theories. When controversies about correct economic theory are recognized, sharp conclusions often disappear. Other issues concern disputes over the

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<sup>3</sup> For discussion of the distinction between hard and soft-core public choice approaches see Willett (forthcoming).

appropriate characterization of the facts and the need to consider the magnitude of effects.

The thrust of the available evidence does not undercut Vaubel's central thesis. It is important to consider bureaucratic behavior at the IFIs. The evidence does suggest however, that in doing so we should investigate objectives beyond just budget maximization and integrate such analysis with consideration of major external influences on the IFIs.

## II. Differing Incentives For Budget Maximization Across Organizations: A Comparison of Central Banks, the IMF, and the World Bank

Public choice analysis provides a powerful search light for illuminating important aspects of the behavior governments and bureaucratic organizations, but we must not let this power blind us to the need to carefully investigate the particulars of each application. For example, despite the tendency of critics from both the left and the right to lump them together, the IMF and the World Bank are in many important respects quite different types of organizations. Both the objectives of the staff and the monitoring capacity of top management and outside groups vary considerably across these institutions.

In the early stages of public choice analysis, there was a quite understandable tendency for bureaucratic theory to replace the profit maximization assumption of the neoclassical theory of the firm with a budget maximization assumption for the objective of bureaucrats. For managers in large private organizations, personal income, perks, power, prestige, and advancement are all likely to be frequently highly correlated with the size of budgets, personnel or sales and the budget maximization hypothesis has been shown to have considerable explanatory power in many contexts. This is the approach taken by Vaubel in his analysis of the IFIs. He argues that "bureaucracies are interested

in power, prestige, and amenities. To achieve these objectives they try to maximize their budget, their staff, and their independence” (1996, p. 195). Bruno Frey (1997) has recently argued, however, that “the public choice literature is rather mute on the question of how employees in an international organization use the leeway awarded them” (p. 120). He goes on to suggest that “international bureaucrats pursue those policies that give them most prestige and influence within the reference groups with which they are connected” (p. 121).

There will be conflicts among at least some of the goals of maximizing budget, output, salary, and prestige. Miguè and Bélanger (1974), for example, suggest that bureaus are likely to trade off a smaller total budget against a greater discretionary budget. As Ronald Wintrobe [1997] puts it in his recent review of modern bureaucratic theory, “What do bureaucrats want? Economists being who they are, the most common answer to this question has simply been ‘Mo’ money (a bigger budget). However, as a general answer this appealing but simple idea has been largely discredited and more sophisticated answers have been developed (bigger discretionary budget, influence on public policy, power, or simply utility).”<sup>4</sup>

In the following analysis I will suggest that in some types of organizations Frey’s emphasis on prestige will generate greater incentives for bureaucrats to pursue Vaubel’s assumption of budget maximization than in others and that in this regard, Vaubel’s analysis will be a good deal more applicable for the World Bank than for the IMF. In earlier work, Banaian et al (1998), Willett (1990), I argued that in the case of independent

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<sup>4</sup> With respect to the power of bureaucrats (agents) with respect to their principals, the early literature such as Niskanen (1971) assumed a high degree of autonomy for bureaucrats based largely on their control of information. The recent trend in the literature, however, has been on the mechanisms of control by the principals, especially legislatures.

central banks, budget manipulation is likely to be a much less powerful motivation than for the typical government organization. Power, prestige, and perks, yes - but these objectives are likely to require only a tiny fraction of the revenues generated as a by-product of normal monetary operations. Thus, while many governments face strong incentives to be concerned with the seigniorage raising effects of national monetary policies, central banks themselves typically will not. The expenditures that directly affect the attraction of the job for central bankers will often be infra marginal with respect to total seigniorage revenues, i.e., they will be independent of changes in total revenues. That is definitely the case with respect to the Federal Reserve Board in the United States where often more than ninety percent of seigniorage revenues are turned over to the federal government and there is no fixed ratio of funds kept by the Fed.<sup>5</sup>

In analyzing national and international monetary organizations, we need to carefully evaluate both the degree of discretion that bureaucrats have and the objectives which they seek to pursue with this autonomy. As is emphasized in the growing literature on the political economy of central bank independence, the amount of effective autonomy enjoyed by national monetary officials varies tremendously across countries and time – depending both on formal institutional arrangements and a host of other factors.<sup>6</sup> In general we would expect international bureaucracies to have greater autonomy than national ones (see Frey [1997] and Vaubel [1986]), but this is also likely to vary considerably from one organization to another.

I will argue that as a consequence of micro incentive structures, national monetary authorities should have much less interest in budget maximization than World Bank

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<sup>5</sup> See Banaian et al (1988).

<sup>6</sup> For recent discussions and references to the literature see Banaian et al (1995) and Cukierman (1992).

officials, with the International Monetary Fund falling into an intermediate category. Because of different communities of peers resulting in part from differences in the nature of their duties, monetary policy officials are likely to have less interest in budget maximization than the typical bureaucracy. Monetary policy actions tend to be quite visible and attract a good deal of public attention in comparison with most decisions by governments and international organizations. The most relevant peer groups of policy makers in the monetary area are likely to be leading public figures.<sup>7</sup> This is likely also true of the management and top staff of the IMF. All but the very top World Bank officials are likely to have much less visibility, however, and thus will be inclined to define their relevant peer group much more narrowly. As such their standing within the Bank is likely to carry much more weight in their utility functions than would be the case with monetary officials. Consequently, budget maximization considerations seem likely to be of greater importance for the World Bank than for national monetary officials.

An important part of the apparent tendency for most central banks to be relatively lean organizations in comparison with the average government organization has to do with the nature of their primary products. Monetary policy has substantial elements of a public good and its necessary physical costs of production are quite low. Most of the actual costs involve acquiring and evaluating information in order to try to improve the quality of decisions. This is quite different from national defense where in addition to the costs of making informed decisions, there are typically substantial physical costs of

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<sup>7</sup> Of course some at all three types of organization will include academia as an important peer group. My analysis would predict that the proportion doing so would be much lower at the World Bank than at the IMF and national central banks.

production, which give much greater scope for narrowly motivated rent seeking behavior (i.e., lets make sure that the defense plant in my district gets plenty of business.)

Of course, central banks are not monolithic entities. Bank supervision, as with many aspects of national defense, requires a great many more individual decisions than does monetary policy, and these decisions receive much less prominence. Thus, we would expect to see a much greater role for budget maximization objectives in bank supervision divisions of the central banks than in their monetary policy divisions. Similarly, by the nature of their primary outputs, we would expect finance ministries to display less budget maximization behavior than commerce departments – again with the crucial caveat that there may be important variations over the different functions performed by each ministry.

The number and visibility of individual outputs affects both the incentives of bureaucrats and the ability of top management or other overseers to monitor their behavior. The difficulty of measuring the quality of output is also important. Where this is high, there will be a greater tendency to monitor on the basis of more easily measured inputs. The prevalence of many hard to measure outputs is particularly fertile ground for the relevance of the budget maximization hypothesis.

In this regard, there is a clear progression as we go from national monetary policy makers to the IMF to the World Bank. While national central banks have responsibility for making monetary policy for one country, the IMF has responsibilities for making recommendations about macroeconomic policies for many countries, as well as dealing with more specific policy issues involved with the operation of the international monetary system. While the specific responsibilities differ, the environment of the IMF is much

like that of national central banks and finance ministries. As such, there would seem to be relatively little incentive for key decision makers at the IMF to maximize staff size. Having a well paid, high quality staff is another matter.

Where the IMF differs most importantly from national central banks is that a major part of its output is not just policy advice and international monetary agreements, but also loans to individual countries for balance of payments assistance and crisis management. Here the incentives for non public interest bureaucratic behavior are much greater. However, the strongest perverse incentives with respect to IMF loan programs may come from career enhancement incentives to not rock the boat and with excessive risk aversion toward the possibilities of currency crises than from motivation from budget maximization per se [see Willett (forthcoming)]. The relative importance of these different motivations is likely in turn to influence both the design of the best strategies for reform and the likelihood of effective implementation.

As we turn from the IMF to the World Bank, both the incentives for materialistic rent seeking and the difficulties of monitoring increase. While there has been increasing overlap of the activities of the two organizations over time there is still a great difference between the major outputs of the IMF and the World Bank. The agenda of the World Bank is far broader and it makes many more micro level loans. Most of the World Banks' loans and offerings of policy advice have much less high-level visibility than do those of the IMF. Doubtless many World Bank officials are attracted to the prospect of being able to do good for others, but the additional arguments in their utility functions appear likely to fit more closely with the assumption of traditional bureaucratic theory than do those of the typical central banker or IMF official. The lower the level of the

decision maker being considered, the less are the likely differences in incentives for budget maximization across organizations. There will remain, however, major differences across organizations in the degree of effective autonomy of these decision makers. With its wider array of outputs and with the substantial difficulties of measuring the effectiveness of its programs, it is much more difficult for top management and the Executive Board to effectively monitor and control the actions of staff at the World Bank than it is at the IMF.

### III. Observational Equivalence and Other Methodological Issues

One type of test considered by Vaubel involves looking at IMF strategies and policy recommendations to check their consistency with bureaucratic self-interest. This is certainly a worthwhile approach. It is important, however, to consider the consistency not only with one's own hypothesis, but also with other possible interpretations. This Vaubel usually fails to do. A number of observations that he correctly concludes are consistent with his hypotheses are equally consistent with other interpretations – often including public interest behavior.

One particular difficulty in this type of 'testing' is that the interpretations will often be heavily dependent about views of correct economic theory. Indeed frequently evaluations will be of necessity tests of joint hypothesis about behavioral objectives and views of how the world operates (i.e. positive theory). Often, however, those who use this approach slide over this problem, making implicit assumptions about correct positive theory. Thus, for example, to critics from the far left who adopt Marxist or structuralist economic theory, the recessions that so often accompany the initiation of IMF programs are seen as clear evidence of the IMF's capture by capitalist interest. However to most

mainstream economists, this evidence would be perfectly consistent with a public interest interpretation, the recessions being a necessary short run price that must be paid in order to achieve long run economic stability.

Vaubel criticizes the IMF for designing economic policy programs based heavily on discretionary fine-tuning as opposed to strict adherence to rules and quite correctly argues that this is consistent with the Fund's bureaucratic interests. This is a strong test, however, only if rules are clearly superior to discretion on public interest grounds. While Vaubel adheres to a school of macroeconomic thought which believes this to be the case, this is a subject of considerable controversy among macroeconomists. Thus Vaubel's observations of a preference for discretionary policy are equally consistent with bureaucratic self-interest and public interest behavior based on beliefs that the situation is too complex to handle via rules.<sup>8</sup>

Another type of problem involves the characterization of facts, both of behavior and of effects. Again, all too often, the facts presented are not sufficiently documented and sometimes even professional controversies about the facts fail to be noted. This problem occurs often with respect to statements about the effects of IMF programs as the differences in view of the left and right illustrate. It also sometimes fits characterization of the types of policies advocated by the IMF. Vaubel argues that "Since the Fund is interested in large foreign exchange interventions, it tends to favor a system of exchange rate parities with narrow margins" (p. 195). One can indeed point to many examples that fit this hypothesis, but there are many other cases that do not. In fact, the IMF is well

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<sup>8</sup> For arguments that the situations faced by the IMF are typically too complex for rules to be efficient see Eichengreen (1999).

known for advising many developing countries to adopt more flexible exchange rate regimes.

The IMF does not offer monolithic advice on exchange rate regimes. Nor need this involve inconsistency since the major insight of the theory of optimum currency area is that the balance of costs and benefits of different exchange rate regimes may vary systematically across countries. Thus it may be best for one country to have fixed rates and another flexible. Apart from particular country circumstances, the IMF's general tilt toward pegged versus flexible exchange rates has fluctuated overtime as has the majority of opinion within the academic profession. And as with the latter, at any point of time, there is considerable dispersion of views among the Fund's management, senior staff, and members of the Executive Board.

At the present time, it is difficult to determine the Fund's overall tilt. The extensive surveying done for the recent external evaluation of the Fund's surveillance policies reported numerous complaints of perceived Fund bias toward pegged rates but it also heard many complaints of bias toward flexible rates (see IMF 1999a). Certainly desires to generate more business for itself cannot have dominated the IMF's advice on exchange rate policies in recent years.

#### IV. Loan Pushing and the Effectiveness of IMF Programs

Another example of bureaucratic behavior given by Vaubel is the traditional low interest rates on IMF loans. This is consistent with bureaucratic incentives for loan pushing, it could also reflect public interest motivation of the IMF's stock holders to provide aid to developing countries which represent most borrowings from the IMF. (That this probably would not be a first best form of aid is a different issue).

Charges that bureaucratic incentives to keep the loan funds flowing have resulted in insufficient stringency in the IMF's policing of its policy conditionality are also difficult to evaluate. Incentives for such behavior certainly exist and a number of writers from the right have viewed it as almost self evident that IMF funding has overwhelmingly tended to retard rather than promote adjustment.<sup>9</sup> Writers on the left tend to believe just the opposite, however. They charge the IMF with promoting poverty through excessively harsh adjustment programs.<sup>10</sup> However, defenders of the Fund can point to cases where IMF programs have indeed helped promote desirable adjustment policies.

As experience with IMF programs has been quite varied, representatives of each of these points of view can point to specific cases that support their beliefs. There have been a number of more systematic studies of IMF programs, but they still leave an extremely broad gray area open to conflicting interpretation.<sup>11</sup> This is hardly surprising, given both the broad range of disagreements about what economic policies would be in the public interest and the difficulties of judging the counterfactual of what policy would have been in the absence of the IMF program. The studies do show overwhelmingly that the initial stated objectives of IMF programs are seldom met, but this does not tell us much about whether policies were better than they would have been in the absence of a program. Likewise, as Krueger (1997, p. 36) notes, "judging whether policy reform was pushed 'hard enough' is problematic."

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<sup>9</sup> See, for example, the contributions in Badow and Vasquez (1994) and McQuillan and Montgomery (1999).

<sup>10</sup> As Krueger (1997, p. 17) notes, "most critiques of the Fund centered on its conditionality...as being too harsh."

<sup>11</sup> For recent contributions and references to the literature, see Bird (1996), Killick (1995), Killick et al (1998), Ul Haque and Kahn (2000).

The studies also show that contrary to the strongest forms of bureaucratic capture allegations,<sup>12</sup> the IMF has been willing to pull the plug on a substantial number of programs. Thus despite the bureaucratic incentives to push loans, there must also be some strong countervailing incentives. Important here are the personal incentives of top IMF officials to be concerned with the IMF's reputation. This reflects not only the officials' concerns with their own reputation, but also the emphasis placed by the Fund and its share holders on its catalytic role as a signaler for private capital flows. This provides the Fund with incentives to worry about reputation. Furthermore, as Bird [1998] emphasizes, within a principal agent framework the Fund has incentives to use conditionality to signal to its shareholders that it is being a good agent.<sup>13</sup>

There is reason to question whether such incentives have been sufficient to keep the credibility of IMF programs from declining over time.<sup>14</sup> For example, many of the programs pulled by the Fund are started again soon after with little apparent penalty. Whatever its' bureaucratic incentives for loan pushing, the Fund's share holders have managed to exercise sufficient control to sharply limit the aggregate growth in the IMF's lending capacity. Fischer [1999] points out that as a proportion of world GDP Fund quotas have fallen by over ninety percent. Economies of scale in the demand for international reserves and the virtual cessation of borrowing from the IMF by the industrial countries would tend to reduce the size of the need for increases in IMF quotas, but the rapid growth of international capital mobility would cut in the opposite direction. No such adjustments, however, would change the qualitative conclusion that growth of

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<sup>12</sup> See, for example, Sadler et al (1995).

<sup>13</sup> For an alternative principal-agent analysis where the IMF is treated as the principal and borrowing governments as the agents, see Killick (1996).

<sup>14</sup> See, for example, Bird and Rowlands (1997) and Willett (2000a).

IMF quotas and hence the IMF's lending potential has been far less than the growth of the world economy.

Further evidence on the limited success of loan pushing comes from judgements that many countries tend to come to the Fund too late rather than too early.<sup>15</sup> This suggests through revealed preferences that the policy conditionality of Fund programs was considered to have enough bite that these costs to national sovereignty and decision making freedom were perceived to be more than sufficient to offset the subsidized rate of interest on IMF loans.<sup>16</sup>

There is, however, evidence consistent with gaming on the part of the IMF that does not appear to be consistent with public interest interpretations. Vaubel [1991, 1996] finds evidence of hurry up lending in advance of reviews of quota increases. This is consistent with the old bureaucratic maxim that failure to spend all of the old budget makes it more difficult to get increases in the new budget. It is hard to think of a public interest interpretation that would fit this pattern.<sup>17</sup> However, once we recognize that there may be more than one set of considerations at work, we should pay attention to the size as well as the existence of evidence supporting the operation of bureaucratic or other

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<sup>15</sup> See, for example, Bird (1996). There in fact appears to be two quite different types of borrowers from the Fund that exhibit quite different types of behavior. One type uses the fund sparingly if at all and sees high political and/or economic costs to accepting Fund program. The other type becomes hooked on IMF funding. James Vreland (1999) suggests that these distinct types of behavior can be explained in terms of a high fixed political cost of agreeing to a Fund program.

<sup>16</sup> There are good reasons for the recent move to increase the charges on IMF loans, but public choice analysis suggests that this will have relatively little effect on behavior since we would expect public authorities with some degree of discretion to be much less concerned with the level of interest costs than would the typical private economic agent. The recent push by developing countries to block increases in the charges on IMF loans clearly shows that their governments are not indifferent to the interest rates they are charged, but given a tradeoff between the level of interest costs and the severity of constraints on their behavior, we would expect governments on average to choose positions less skewed toward low interest costs than private agents.

<sup>17</sup> This also applies to findings that fluctuations in the stringency of IMF conditionality are pro-cyclical. See, for example, Bird (1996).

biases. I have no quarrel whatsoever with Vaubel's evidence that there is an element of hurry up lending in the behavior of the IMF. What I find most interesting, however, is that Vaubel's numbers suggest that the magnitude of this effect is rather modest. Vaubel's table shows that the average increases in the third and fourth years of the quota cycle are only 4.2 percent and 3.6 percent respectively. These increases are indeed greater than the average increase in the first two years (which is slightly negative), but the amount of increase seems rather small. Although Vaubel does not present tests of statistical significance, I would not be surprised if these differences were significant at conventional levels. I would interpret Vaubel's results, however, as suggesting that hurry up lending at the IMF appears to be a minor rather than a major problem.

#### V. Staff Size and Salaries

Whether we can say that the IMF staff is not just well paid, but also overpaid is not as easy as it might first appear. As Vaubel (1991) documents, IMF staff earn a substantial premium compared with staff at the Federal Reserve Board and U.S. federal government employees in the Washington, D.C. area. This would also hold with respect to academic economists. The argument that IMF staff are not overpaid must rest with comparisons with private financial institutions. Enough Fund staff leave for such jobs that this comparison is not entirely spurious.

It should be added that while Fund staff do received many non-pecuniary benefits, most are worked quite hard. Indeed, concern with excessive workloads was expressed by the team of outside experts that recently reviewed the Fund's research activities (IMF 1999b). While critics often refer to foreign travel by the Fund's staff as an additional benefit, many at the Fund wish that they could get away with going on fewer foreign

missions. Traditionally the U.S. government, in part responding to Congressional concern, has tried to hold down the size of pay increases at the IFIs, but with only modest success. All in all, it is probably fair to conclude that the IMF management and staff have been pretty successful in looking out for their own narrow pecuniary interests, but not by so much as to make the supply of applicants for Fund jobs virtually perfectly elastic as Vaubel (1996) suggests.<sup>18</sup> In terms of overall policy implementation, it should also be remembered that salaries are a relatively small part of the IMF's total budget.

The prediction made in Section II that the World Bank will have more bureaucratic flab than the IMF fits well with the qualitative judgements of close observers of the two institutions. For example, the Bretton Woods Commission [1994], a set of blue ribbon leaders from the academic, policy, and financial communities, depicts a bloated staff at the World Bank in contrast with a lean high quality staff at the IMF.<sup>19</sup>

Vaubel (1996) finds that the size of the staff has grown more rapidly at the World Bank than at the IMF (6.8 percent per annum versus 4.3 percent over the period of 1955 to 1994). IMF staff growth, however, was higher than for the BIS (2.2 percent) and the OECD (2.1 percent). It is not clear a priori, however, whether any of these growth rates are too high or too low relative to the tasks that the organizations are being asked to perform.

Some argue that the IMF lost its purpose after the breakdown of the Bretton Woods adjustable-peg exchange rate regime in the early 1970s and should have been

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<sup>18</sup> It should be qualified that given understandable limitations on the country composition of Fund staff, the supply from a number of countries is likely perfectly elastic over a substantial range, but not for many of the industrial countries.

<sup>19</sup> In an article highly critical of the IMF Minton-Beddoes (1995) also argues that the IMF is not overstaffed.

abolished. Hence its growth rate should be strongly negative. Such arguments are based, however, on a lack of appreciation of the full range of roles that the IMF was designed to play. The IMF certainly has been keen to throw itself into new tasks such as dealing with the international debt crisis and the economic transitions of the former communist countries,<sup>20</sup> just as any bureaucracy theorist would expect. And in each case some critics have argued that the IMF had no business taking on these new tasks. Unfortunately from the standpoint of clear-cut testing, there are also many experts who argue that it was in the public interest for the IMF to take on these tasks.

While I have no doubts that threats to survival of the institution would provoke as strong a bureaucratic response at the IMF as at any other institution, there is also clear evidence that the IMF's moves into new areas also reflected pulls from its major shareholders. Thus it would be no easy task to sort out the relevant magnitudes of agent push and principals pull in these episodes. Likewise one can plausibly argue that the complexity of today's international financial issues are much greater than they were during the Bretton Woods era. Thus a plausible case could be made that if anything, the IMF is under rather than overstaffed.<sup>21</sup>

Recognition of the differences in the nature of the types of loans they provide is important for attempts to produce quantitative measures of productivity at the IMF and World Bank. Vaubel [1996] presents measures of productivity at these organizations based on the number of credits approved per year divided by the number of staff. While

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<sup>20</sup> See, for example, Henning (1996) and James (1996).

<sup>21</sup> For arguments that the IMF needs to expand its staff capabilities in the area of political economy analysis, see Willett (2000b). Financial sector analysis is another area in which there has been a strong need to expand IMF staff capabilities. Of course, it is a separate issue whether such expansions should be matched by cutbacks in other areas. There is evidence however, that overwork has had serious adverse effects on the IMF's research efforts. See IMF (1999).

noting that the number of credits “is a somewhat imperfect proxy because it captures neither the quality of the distribution and design of the credits, nor supplementary services like the provision of information and advice.” (p. 196) Vaubel fails to note that the macro nature of the IMF’s mandate implies that it will be making many fewer loans than the World Bank, while still having substantial responsibilities for the provision of information and advice. The resulting comparative productivity figures are highly misleading. For 1994 Vaubel’s table shows the World Bank as being two and a half times more productive than the IMF. (The numbers for 1955 show the World Bank as being more than eight times more productive). While Vaubel does not explicitly address comparative productivity at the two institutions, such numbers can give a highly misleading impression of the degree of bureaucratic efficiency of the two organizations.

Vaubel (1991, 1996) also presents evidence consistent with the hypothesis that the size of the IMF’s staff is unresponsive to need, thus suggesting a great deal of bureaucratic autonomy. It is extremely difficult, however, to construct a good empirical proxy for the demand or need for IMF services. As a consequence, it is not surprising that Vaubel does not find significant coefficients on his need proxy. This result is equally consistent with the bureaucratic autonomy hypothesis and with the poor proxy hypothesis. While the  $R^2$ ’s of the equation are extremely high, this appears to be due primarily to the inclusion of the lagged dependent variable. Thus, the power of the test to discriminate among hypotheses is quite low. It is a quite legitimate exercise for a plausibility probe, but not for a critical experiment. In the mature stage of public choice analysis, all tests should include discussion of their power – not just in the formal

statistical sense – but in terms of their likely ability to discriminate among alternative relevant hypothesis.

## VI. Concluding Remarks

Roland Vaubel has performed a valuable service in highlighting the role that bureaucratic incentives can play in influencing the behavior of the IFIs. This is a healthy antidote to both the traditional public interest treatments of international organization by many economists and some international relations scholars and the dominant realist view in international relations that views international organizations as having little autonomy and influence.

We need to push beyond Vaubel's analysis, however, to incorporate a broader range of considerations. I have suggested that the bureaucratic incentives for loan pushing and maximizing staff size are likely to be considerably less at the IMF than at the World Bank. This supports Bruno Frey's (1997) suggestion that we need to pay greater attention to the study of the objectives of international organizations.

We also need to pay more attention to the relative importance of various external influences. It is not difficult to establish that major financial institutions have more influence on IMF both directly and indirectly through the intermediation of national governments than does say the agricultural lobby or the typical voter.<sup>22</sup> We also have many examples, however, where the IMF fails in its role as lackey to big finance. The recent emphasis by the Fund on the need for greater private sector burden sharing during international debt crisis is an important case in point. Thus developing even a rough idea of how much the Fund has catered to financial special interests will not be an easy task.

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<sup>22</sup> For recent quantitative studies of the influence of financial interests and US political interests on IMF policy, see Gould (2000), Stone (2000), and Thacker (1999).

But it is important. The same will hold for the influence of US foreign policy concerns. There is strong evidence, both quantitative and qualitative, that the US often has a strong influence on IMF policy, but the US does not always get its way. There is a lot of important political economy research to be done.

Moving to a higher level of public choice analysis is likely to stimulate some cognitive dissonance. Easy answers and comforting certainties will be found far less frequently. Much of our analysis will have to become more nuanced and tentative. We would have to face more explicitly the vast amount that we do not know and accept a much wider range of grey areas in which the available evidence is not conclusive. We will likewise have to invest more time in learning the particulars of a situation before we can offer analysis with confidence. We cannot safely assume that a bureaucracy is a bureaucracy and that all political and economic systems operate in the same way. Abandoning plausibility probe stage for the richer world of contingent analysis and critical experiments will not be entirely comfortable, but the power of public choice analysis deserves no less.

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